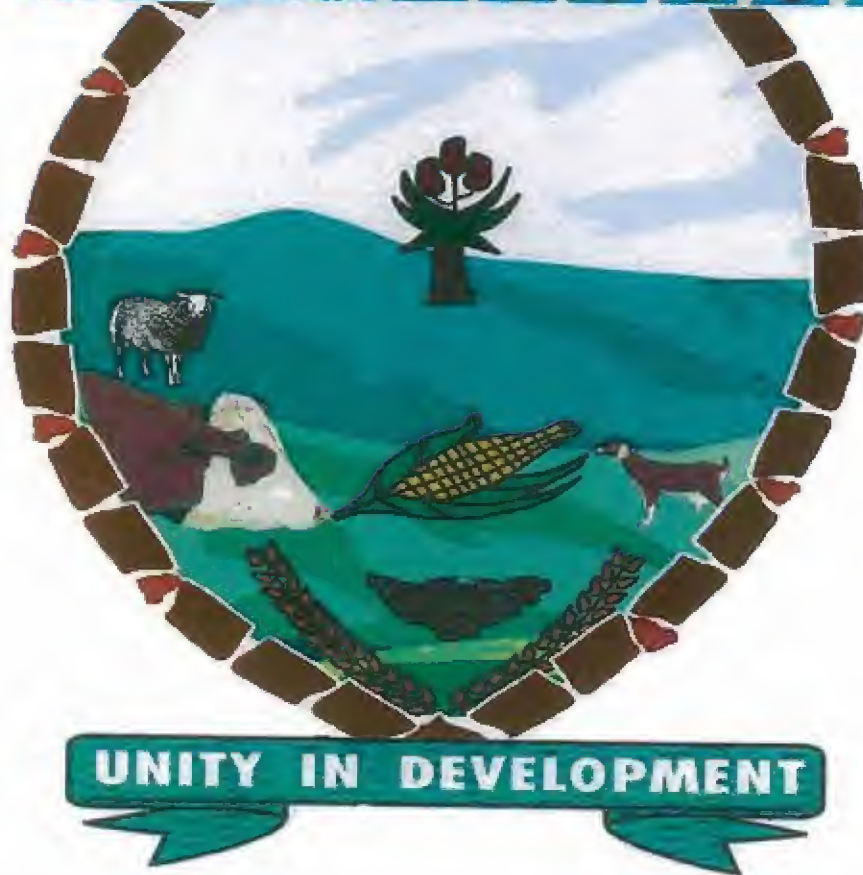


EMALAHLENI MUNICIPALITY



[These financial statements have not been audited]

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

EMALAHLENI MUNICIPALITY

INDEX

Contents	Page
General Information	1
Approval of the Financial Statements	2 - 3
Report of the Auditor General	N/A
Statement of Financial Position	4
Statement of Financial Performance	5
Statement of Changes In Net Assets	6
Cash Flow Statement	7
Statement of comparison of budget and actual amounts - Statement of Financial Position	8 - 9
Statement of comparison of budget and actual amounts - Statement of Financial Performance	10 - 11
Statement of comparison of budget and actual amounts - Cash Flow Statement	12 - 13
Accounting Policies	14 - 46
Notes to the Financial Statements	47 - 80
APPENDICES - Unaudited	
A Schedule of External Loans	81
B Segmental Statement of Financial Performance - Municipal Votes	82
C Segmental Statement of Financial Performance - GFS	83
D Disclosure of Grants and Subsidies in terms of Section 123 of the MFMA, Act 56 of 2003	84

EMALAHLENI MUNICIPALITY

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

GENERAL INFORMATION

NATURE OF BUSINESS

Emalahleni Municipality is a local municipality performing the functions as set out in the Constitution. (Act no 108 of 1996)

COUNTRY OF ORIGIN AND LEGAL FORM

Emalahleni Municipality is a South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act. (Act no 117 of 1998)

JURISDICTION

The Emalahleni Municipality includes the following towns and surrounding rural areas:

*Dordrecht
Indwe
Lady Frere*

MUNICIPAL MANAGER

Dr. S. W. Vatala

CHIEF FINANCIAL OFFICER

GP De Jager

REGISTERED OFFICE

Emalahleni Municipality; 37 Indwe Road; Lady Frere; 5410

AUDITORS

Office of the Auditor General

PRINCIPLE BANKERS

Standard Bank; 92 Cathcart RD; Queenstown; 5320

RELEVANT LEGISLATION

Municipal Finance Management Act (Act no 56 of 2003)

Division of Revenue Act

The Income Tax Act

Value Added Tax Act

Municipal Structures Act (Act no 117 of 1998)

Municipal Systems Act (Act no 32 of 2000)

Municipal Planning and Performance Management Regulations

Water Services Act (Act no 108 of 1997)

Housing Act (Act no 107 of 1997)

Municipal Property Rates Act (Act no 6 of 2004)

Electricity Act (Act no 41 of 1987)

Skills Development Levies Act (Act no 9 of 1999)

Employment Equity Act (Act no 55 of 1998)

Unemployment Insurance Act (Act no 30 of 1966)

Basic Conditions of Employment Act (Act no 75 of 1997)

Supply Chain Management Regulations, 2005

Collective Agreements

Infrastructure Grants

SALBC Leave Regulations

EMALAHLENI MUNICIPALITY

MEMBERS OF THE EMALAHLENI MUNICIPALITY

COUNCILLORS

1 Nyukwana, N.	Mayor	ANC	Mayor Ward 8
2 Lali, N.	Speaker	ANC	Speaker Ward 13
3 Liwani, S.	Chief Whip	ANC	Executive Committee Ward 6
4 Kalolo, D.S.	Executive Committee	ANC	Executive Committee Ward 7
5 Kulashe, T.	Executive Committee	ANC	Executive Committee Ward 11
6 Twala, B.P.	Executive Committee	ANC	Executive Committee Ward 10
7 Nkasela, K.	Executive Committee part time	ANC	Executive Committee Ward 2
8 Mool, L.	Chairperson of Section 79 Committee	ANC	Ward Councillor 2
9 Koni, N.F.	Councillor	ANC	Ward Councillor 1
10 Ziduli, N.	Councillor	ANC	Ward Councillor 3
11 Bobotyana, H.C.	Councillor	ANC	Ward Councillor 4
12 Mapete, P.	Councillor	ANC	Ward Councillor 5
13 Qashani, N.	Councillor	ANC	Ward Councillor 6
14 Peter, N.	Councillor	ANC	Ward Councillor 7
15 Nobaza, P.	Councillor	ANC	Ward Councillor 8
16 Dudumashe, T.R.	Councillor	ANC	Ward Councillor 9
17 Gwagwana, L.	Councillor	ANC	Ward Councillor 10
18 Teka, Z.H.	Councillor	ANC	Ward Councillor 11
19 Dyonase, Z.	Councillor	ANC	Ward Councillor 12
20 Kraqa, N.	Councillor	ANC	Ward Councillor 13
21 Godla, M.	Councillor	ANC	Ward Councillor 14
22 Mnyuko, S.	Councillor	ANC	Ward Councillor 15
23 Komani, B.	Councillor	ANC	Ward Councillor 16
24 Papiso, Z.	Councillor	ANC	Proportional Ward 17
25 Jordaan, V.	Councillor	ANC	Proportional Ward 4
26 Dikillili, N.	Councillor	UDM	Proportional Ward 14
27 Holana, N.	Councillor	ANC	Proportional Ward 17
28 Ndlela, T.R.	Councillor	DA	Proportional Ward 12
29 Mjesu, K.	Councillor	UDM	Proportional Ward 10
30 Greyling, P.	Councillor	DA	Proportional Ward 14
31 Mketsu, Z.	Councillor	COPE	Proportional Ward 5
32 Kwatshana, T.	Councillor	PAM	Proportional Ward 16
33 Sixishe, TD.	Councillor	ANC	Proportional Ward 3
34 Bokjaini, SN	Councillor	ANC	Proportional Ward 10

APPROVAL OF FINANCIAL STATEMENTS

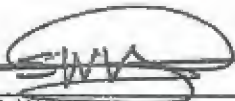
I am responsible for the preparation of these annual financial statements year ended 30 June 2015, which are set out on pages 1 to 14 in terms of Section 126 (1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality. The annual financial statements have been prepared in accordance with GRAP.

I acknowledge that I am ultimately responsible for the system of internal financial control and that the system of internal control provides reasonable assurance that the financial records can be relied on.

I have reviewed the Municipality's cash flow forecast for the year to 30 June 2016 and is satisfied that the Municipality can continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the Municipality's financial statements.

I certify that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.



Dr. S. W. Vataja
ACCOUNTING OFFICER

30 AUGUST 2015

Date

EMALAHLENI MUNICIPALITY

STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2016

	Notes	2016 R	2015 R
NET ASSETS AND LIABILITIES			
Net Assets		410 145 516	406 169 906
Accumulated Surplus/(Deficit)		410 145 516	406 169 906
Non-Current Liabilities		7 000 234	6 241 284
Long-term Liabilities	2	295 485	546 924
Employee benefits	3	6 704 748	5 694 360
Non-Current Provisions	4	(0)	0
Current Liabilities		40 974 839	37 201 143
Current Employee benefits	5	7 129 458	7 097 272
Provisions	4	10 525 917	11 514 635
Payables from exchange transactions	6	21 809 158	17 977 075
Unspent Conditional Government Grants and Receipts	7	1 157 442	348 701
Current Portion of Long-term Liabilities	2	352 864	263 459
Liabilities associated with Discontinued Operations	48.1		2 265 864
Total Net Assets and Liabilities		458 120 588	451 878 197
ASSETS			
Non-Current Assets		412 848 269	395 298 224
Property, Plant and Equipment	9	408 287 626	388 475 177
Investment Property	10	4 247 340	6 433 760
Capitalised Restoration cost	11	-	-
Intangible Assets	12	130 767	206 751
Heritage Assets	13	182 536	182 536
Current Assets		45 272 319	56 579 971
Receivables from exchange transactions	14	7 469 630	18 389 276
Receivables from non-exchange transactions	15	2 826 452	4 192 596
Unpaid Conditional Government Grants and Receipts	7	-	-
Operating Lease Asset	16	82 746	77 416
VAT	8	6 597 929	2 144 284
Cash and Cash Equivalents	17	28 295 562	31 776 400
Total Assets		458 120 588	451 878 197

EMALAHLENI MUNICIPALITY

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2016

	Notes	2016 Actual R	2015 Restated R	2015 Correction of Error R	2015 Previously reported R
REVENUE					
Revenue from Non-exchange Transactions		181 677 990	148 389 883	-	148 389 883
Taxation Revenue		3 744 290	3 719 278	-	3 719 278
Property rates	18	3 744 290	3 719 278	-	3 719 278
Transfer Revenue		175 804 259	143 279 952	-	143 279 952
Government Grants and Subsidies - Capital	19	30 814 700	30 399 227	-	30 399 227
Government Grants and Subsidies	19	145 189 559	112 880 725	-	112 880 725
Other Revenue		2 129 440	1 390 653	-	1 390 653
Actuarial Gains		164 588	926 454	-	926 454
Reversal of Impairment		535 644	10 341	-	10 341
Reversal of contribution landfill site rehabilitation cost		988 719	-	-	-
Fines		81 510	107 783	-	107 783
Contributed Assets		259 000	346 075	-	346 075
Revenue from Exchange Transactions		22 462 553	22 244 529	-	22 244 529
Service Charges	20	11 598 216	11 179 543	-	11 179 543
Rental of Facilities and Equipment		738 586	720 791	-	720 791
Interest Earned - external investments	21	3 846 124	3 349 949	-	3 349 949
Interest Earned - outstanding debtors	21	4 632 959	3 929 602	-	3 929 602
Licences and Permits		444 382	462 097	-	462 097
Agency Services		58 723	65 702	-	65 702
Other Income	22	782 583	2 536 845	-	2 536 845
Gain on disposal of Property, Plant and Equipment		359 990	-	-	-
Total Revenue		204 140 543	170 634 411	-	170 634 411
EXPENDITURE					
Employee related costs	23	53 213 170	42 787 564	4 956	42 782 608
Remuneration of Councillors	24	10 884 836	10 103 758	-	10 103 758
Debt Impairment	25	7 787 477	13 567 042	-	13 567 042
Depreciation and Amortisation	26	22 801 615	23 007 507	940 990	22 066 517
Impairments	10,11,12	-	9 247 688	-	9 247 688
Repairs and Maintenance	28	7 019 892	5 265 970	202 671	5 083 299
Finance Charges	27	622 053	786 929	-	786 929
Bulk Purchases	29	15 628 893	14 809 208	-	14 809 208
Contracted services		4 622 446	5 614 118	49 728	5 564 390
Other Operating Grant Expenditure	30	28 906 458	23 215 458	155 000	23 080 458
General Expenses	31	41 553 053	34 569 792	997 837	33 571 856
Loss on disposal of Property, Plant and Equipment		9 191 107	1 147 498	-	1 147 498
Total Expenditure		202 430 798	184 142 530	2 351 280	181 791 250
Discontinued Operations	48.2	(2 265 854)	-	-	-
NET SURPLUS/(DEFICIT) FOR THE YEAR		3 975 608	(13 508 119)	(2 351 280)	(11 158 838)

EMALAHLENI MUNICIPALITY

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2016

	Accumulated Surplus/(Deficit)	Total
	R	R
Balance at 1 JULY 2014	469 543 323	469 543 323
Correction of errors	(49 865 298)	(49 865 298)
Restated Balance at 1 JULY 2014	419 678 025	419 678 025
Net Deficit for the year	(13 508 119)	(13 508 119)
Balance at 30 JUNE 2015	406 169 906	406 169 906
Net Surplus for the year	3 975 608	3 975 608
Balance at 30 JUNE 2016	410 145 514	410 145 514

EMALAHLENI MUNICIPALITY

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2016

	Notes	30 JUNE 2016 R	30 JUNE 2015 R
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts			
Ratepayers and other		23 739 723	(1 107 626)
Government - operating	19	145 189 559	112 880 721
Government - capital	19	30 614 700	28 961 271
Interest		8 479 083	7 279 551
Payments			
Suppliers		(104 144 665)	(78 877 391)
Employees	23	(47 904 202)	(40 841 931)
Councillors	24	(10 884 836)	(10 103 751)
Finance charges	28	(120 034)	(57 781)
Cash generated by operations	33	<u>44 969 328</u>	<u>18 153 061</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of Property, Plant and Equipment	13	(48 503 117)	(36 827 581)
Proceeds on disposal of PPE		359 969	
Purchase of Heritage Assets		-	(58 531)
Purchase of Intangible Assets	12	(10 950)	(70 061)
Net Cash from Investing Activities		<u>(48 154 078)</u>	<u>(36 956 181)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Loans repaid		(296 088)	(413 721)
(Decrease)/Increase in Consumer Deposits		-	
Net Cash from Financing Activities		<u>(296 088)</u>	<u>(413 721)</u>
NET (INCREASE) /DECREASE IN CASH AND CASH EQUIVALENTS		<u>(3 480 837)</u>	<u>(19 216 851)</u>
Cash and Cash Equivalents at the beginning of the year		31 776 400	50 993 251
Cash and Cash Equivalents at the end of the year	34	28 295 562	31 776 400
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		<u>(3 480 838)</u>	<u>(19 216 851)</u>

EMALAHLENI MUNICIPALITY
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2016

COMPARISON OF ACTUAL FIGURES TO FINAL BUDGET

	2016 R	2016 R	2016 R	
	(Actual)	(Final Budget)	(Variance)	%
ASSETS				
Current assets				
Cash	2 377 127		2 272 122	
Call Investment deposits	20 023 440	18 578 000	9 445 440	56.98%
Consumer debtors	7 469 020	25 831 000	(18 361 570)	-71.08%
Other Receivables	8 507 127	2 285 000	7 222 127	316.07%
Inventory				
Total current assets	45 272 319	44 694 000	578 319	
Non current assets				
Investment property	4 247 340	6 434 000	(2 186 660)	-33.99%
Property, plant and equipment	408 287 626	464 801 000	(56 013 374)	-12.18%
Intangible Assets	130 767	104 000	26 767	25.74%
Heritage Assets	182 536	182 000	(484)	100.00%
Total non current assets	412 848 269	471 421 000	(58 572 731)	
TOTAL ASSETS	458 120 588	516 315 000	(58 194 412)	
LIABILITIES				
Current liabilities				
Borrowing	352 864	256 000	102 864	100.00%
Trade and other payables	22 966 000	20 099 000	2 867 000	34.27%
Provisions and Employee Benefits	17 655 375	20 864 000	(2 908 025)	-14.14%
Total current liabilities	40 974 239	46 219 000	(5 244 761)	
Non current liabilities				
Borrowing	286 486	300 000	(4 514)	-1.50%
Provisions and Employee Benefits	6 704 748	5 517 000	1 187 748	21.53%
Total non current liabilities	7 000 234	5 817 000	1 183 234	
TOTAL LIABILITIES	47 974 473	46 730 000	1 244 473	
NET ASSETS	410 146 115	469 585 000	(59 438 884)	-12.66%
COMMUNITY WEALTH				
Accumulated Surplus/(Deficit)	410 146 115	469 585 000	(59 438 884)	-12.66%
TOTAL COMMUNITY WEALTH/EQUITY	410 146 115	469 585 000	(59 438 884)	-0

Explanations for material variances more than 10% of a specific line-item with a minimum of R2 million

EMALAHLEMI MUNICIPALITY
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2016

ADJUSTMENTS TO APPROVED BUDGET

	2016 R (Approved Budget)	2016 R (Adjustments)	2016 R (Final Budget)	%	Explanations for material variances more than 10% of a specific line-item with a minimum of R11 million
ASSETS					
Current assets					
Cash	577 000	(377 000)		-100%	
Call investment deposits	20 579 000	(4 001 000)	16 578 000	-19%	
Consumer deposits	5 437 000	20 264 000	25 801 000	375%	
Other Receivables	5 305 000	(3 088 000)	2 217 000	-57%	
Inventory	650 000	(650 000)		-100%	
Total current assets	32 608 000	12 066 000	44 674 000		
Non current assets					
Investment property	8 394 000	(1 960 000)	6 434 000	-23%	
Property, plant and equipment	457 164 000	7 737 000	464 901 000	2%	
Intangible Assets	28 000	16 000	104 000	18%	
Other Assets			133 000	100%	
Total non current assets	465 646 000	5 793 000	471 439 000		
TOTAL ASSETS	498 254 000	17 879 000	516 315 000		
LIABILITIES					
Current liabilities					
Trade and other payables	9 875 000	10 224 000	20 099 000	104%	
Provisions and Employee Benefits	7 208 000	13 256 000	20 564 000	183%	
Borrowing			250 000	100%	
Total current liabilities	17 143 000	23 520 000	40 663 000		
Non current liabilities					
Borrowing	651 000	(251 000)	400 000	-46%	
Provisions and Employee Benefits	9 446 000	(3 828 000)	5 618 000	-42%	
Total non current liabilities	9 997 000	(4 180 000)	5 817 000		
TOTAL LIABILITIES	27 140 000	19 340 000	46 480 000		
NET ASSETS	471 114 000	(3 461 000)	469 585 000	0%	
COMMUNITY WEALTH					
Accumulated Surplus/(Deficit)	471 114 000	(1 529 000)	469 585 000	0%	
TOTAL COMMUNITY WEALTH/EQUITY	471 114 000	(1 529 000)	469 585 000	(0)	

EMALAHLENI MUNICIPALITY
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2016

COMPARISON OF ACTUAL FIGURES TO FINAL BUDGET

	2016 R	(Actual)	(Adjustment Budget)	2016 R	2016 R	2016 R	2016 R	2016 R	%	
					(Variance)	Special Adjustments / Unforeseen & Unrealisable	(Final Budget)	(Variance)		Explanations for material variances more than 10% of R specified line-item with a minimum of R3 million
REVENUE (IN SOURCE)										
Property rates	3 744 290		3 443 000		291 290	-	-		8.0%	
Service charges	11 599 210		11 550 000		64 210	-	-		0.6%	
Rental of facilities and equipment	739 590		733 000		6 590	-	-		0.9%	
Interest earned - permanent investments	3 846 124		3 399 000		447 124	-	-		11.6%	
Interest earned - outstanding debt	4 022 650		4 114 000		516 650	-	-		11.2%	
Fines	81 200		110 000		(27 400)	-	-		-40.0%	
Leases and permits	444 302		822 000		(377 698)	-	-		-85.0%	
Agency services	50 725		74 000		(23 275)	-	-		-36.0%	
Government Grants and Subsidies - Operating	145 163 558		145 427 000		(237 441)	-	-		-0.2%	
Other revenue	1 542 375		643 000		839 775	-	-		59.4%	
Revenue of contribution landfill site rehabilitation cost	688 718				(688 718)	-	-		0.0%	
Gain on disposal of Property, Plant and Equipment	359 960		410 000		(50 040)	-	-		-13.5%	
Contributed Assets	259 000		-		259 000			259 000		
Total Operating Revenue	173 505 843		170 716 000		1 823 124			259 000		
EXPENDITURE BY TYPE										
Employee related costs	53 213 170		54 768 000		(1 554 830)	-	-		-2.9%	
Remuneration of councillors	10 864 600		10 888 000		(23 400)	-	-		-0.1%	
Debt impairment	7 767 477		2 300 000		5 467 477	-	-		70.5%	
Depreciation & asset impairment	22 901 615		24 432 000		(1 530 385)	-	-		-7.2%	
Finance charges	622 063		500 000		122 063	-	-		19.6%	
Build purchases	15 628 893		18 040 000		(2 411 107)	-	-		-15.4%	
Contracted services	4 822 440		3 880 000		842 440	-	-		17.5%	
Other expenditure	77 479 202		65 374 000		10 894 700	-	-		11.5%	
Loss on disposal of PPE	8 191 197		-		8 191 197	-	-	8 191 197		
Total Operating Expenditure	202 420 705		201 269 000		1 141 790			0 191 107		
Operating Deficit for the year	(28 914 862)		(30 573 000)		1 658 138			(16 532 107)		
Government Grants and Subsidies - Capital	30 614 700		30 615 000		(300)	-	-	30 614 700		
Net Surplus for the year	1 700 744		42 000		1 658 744			21 652 593		

SMITH & HUNT MUNICIPALITY

ADJUSTMENTS TO APPROVED BUDGET

	2016 R	2010 R	2015 R	Special Adjustments / Unseen & Unavoidable	Final Adjustments	2016 R	2015 R	2014 R	%	Explanations for material variances more than 10% of a specific line item with a minimum of R1 million
REVENUE BY SOURCE										
Property rates	2 851 000	3922 000	3 443 000	-	-	-	-	-	24%	
Service charges	16 019 000	(4 485 000)	11 530 000	-	-	-	-	-	-28%	
Rental of facilities and equipment	633 000	100 000	733 000	-	-	-	-	-	16%	
Interest earned - external investments	2 189 000	1 273 000	3 389 000	-	-	-	-	-	53%	
Interest earned - outstanding deposits	2 681 000	1 433 000	4 114 000	-	-	-	-	-	53%	
Fines	119 000	-	119 000	-	-	-	-	-	0%	
Licences and permits	1 532 000	(770 000)	822 000	-	-	-	-	-	-40%	
Agency services	1 945 000	(1 271 000)	74 000	-	-	-	-	-	-34%	
Government Grants and Subsidies - Operating	343 753 000	1 674 000	345 427 000	-	-	-	-	-	1%	
Other revenue	487 000	175 000	643 000	-	-	-	-	-	30%	
Gains on Disposal of PPE	-	410 000	410 000	-	-	-	-	-	100%	
Total Operating Revenue	171 362 000	(869 000)	170 715 000	-	-	-	-	-	-1%	
EXPENDITURE BY TYPE										
Employee related costs	59 202 000	(4 435 000)	\$4 768 000	-	-	-	-	-	-7%	
Remuneration of councillors	10 739 000	157 000	10 895 000	-	-	-	-	-	1%	
Debt impairment	1 360 000	1 000 000	2 360 000	-	-	-	-	-	77%	
Depreciation & asset impairment	24 505 000	(71 000)	24 432 000	-	-	-	-	-	0%	
Finance charges	730 000	(235 000)	500 000	-	-	-	-	-	-32%	
Bulk purchases	18 040 000	-	18 040 000	-	-	-	-	-	0%	
Contracted services	4 327 000	(347 000)	3 880 000	-	-	-	-	-	-8%	
Grants and subsidies paid	28 380 000	(25 390 000)	-	-	-	-	-	-	-100%	
Other expenditure	53 767 000	32 807 000	66 374 000	-	-	-	-	-	61%	
Total Operating Expenditure	201 002 000	267 000	201 269 000	-	-	-	-	-	0%	
Operating deficit for the year	(29 420 000)	(11 156 000)	(30 573 000)	-	-	-	-	-	4%	
Government Grants and Subsidies - Capital	39 615 900	-	39 615 900	-	-	-	-	-	0%	
Net Surplus/(Deficit) for the year	1 105 000	(11 156 000)	47 000	-	-	-	-	-	-97%	

EMALAHLENI MUNICIPALITY
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2016

COMPARISON OF ACTUAL FIGURES TO FINAL BUDGET

	2016 R	2016 R	2016 R	
	(Actual)	(Final Budget)	(Variance)	%
CASH FLOW FROM OPERATING ACTIVITIES				
Receipts				
Ratopayers and other	23 738 723	8 081 000	15 058 723	173%
Government - operating	145 139 559	145 427 000	(287 441)	0%
Government - capital	30 614 700	30 615 000	(300)	0%
Interest	8 479 003	7 513 000	966 003	13%
Payments				
Suppliers and Employees	(182 833 703)	(157 136 000)	(5 797 703)	4%
Finance charges	(120 034)	(500 000)	379 966	-70%
Transfers and Grants	-	-	-	-
NET CASH FROM(USED) OPERATING ACTIVITIES	44 950 328	34 600 000	10 350 328	30%
CASH FLOWS FROM INVESTING ACTIVITIES				
Payments				
Capital assets	(48 154 078)	(49 537 000)	1 382 922	-3%
NET CASH FROM(USED) INVESTING ACTIVITIES	(48 154 078)	(49 537 000)	1 382 922	-3%
CASH FLOWS FROM FINANCING ACTIVITIES				
Payments				
Repayment of borrowing	(296 088)	(280 000)	(36 088)	14%
NET CASH FROM(USED) FINANCING ACTIVITIES	(296 088)	(280 000)	-36 088	14%
NET INCREASE(DECREASE) IN CASH HELD	(3 480 830)	(15 198 000)	1 346 834	14%
Cash and Cash Equivalents at the beginning of the year	31 775 400	31 776 000	400	0%
Cash and Cash Equivalents at the end of the year	28 295 562	16 578 000	11 717 562	71%

Explanations for material variances more than 10% of a specific line-item with a minimum of R1 million

EMALAHLENI MUNICIPALITY
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNT'S
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2016

ADJUSTMENTS TO APPROVED BUDGET

	2015 R	2016 R	2016 R	%	Explanations for material variances more than 10% of a specific line-item with a minimum of R1 million
CASH FLOW FROM OPERATING ACTIVITIES					
Receipts					
Ratepayers and other	25 733 000	(17 052 000)	8 681 000	-66%	
Government - operating	143 753 000	1 674 000	145 427 000	1%	
Government - capital	30 615 000	-	30 615 000	0%	
Interest	4 867 000	2 846 000	7 513 000	54%	
Payments					
Suppliers and Employees	(146 080 000)	(11 058 000)	(157 138 000)	8%	
Finance charges	(730 000)	230 000	(500 000)	-32%	
Transfers and Grants	(28 300 000)	28 300 000	-	-100%	
NET CASH FROM/(USED) OPERATING ACTIVITIES	29 768 000	4 832 000	34 600 000		
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments					
Capital assets	(42 515 000)	(7 022 000)	(49 537 000)	17%	
NET CASH FROM/(USED) INVESTING ACTIVITIES	(42 515 000)	(7 022 000)	(49 537 000)		
CASH FLOWS FROM FINANCING ACTIVITIES					
Payments					
Repayment of borrowing	(5 000)	(255 000)	(260 000)		
NET CASH FROM/(USED) FINANCING ACTIVITIES	(5 000)	(255 000)	(260 000)		
NET INCREASE/(DECREASE) IN CASH HELD	(12 752 000)	(2 445 000)	(15 198 000)		
Cash and Cash Equivalents at the beginning of the year	33 908 000	(2 132 000)	31 776 000	.0%	
Cash and Cash Equivalents at the end of the year	21 156 000	(4 578 000)	16 578 000	-22%	

1. ACCOUNTING PRINCIPLES AND POLICIES APPLIED IN THE FINANCIAL STATEMENTS

1.1. BASIS OF PREPARATION

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

The annual financial statements have been prepared in accordance with the Municipal Finance Management Act (MFMA) and effective standards of Generally Recognised Accounting Practices (GRAP), including any interpretations and directives issued by the Accounting Standards Board (ASB) in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

Accounting policies for material transactions, events or conditions not covered by the GRAP reporting framework, have been developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 (Revised – March 2012) and the hierarchy approved in Directive 5 issued by the Accounting Standards Board.

The Municipality resolved to early adopt the following GRAP standards which have been issued but are not effective yet.

A summary of the significant accounting policies, which have been consistently applied except where an exemption has been granted, are disclosed below.

Assets, liabilities, revenue and expenses have not been offset except when offsetting is permitted or required by a Standard of GRAP.

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated otherwise. The details of any changes in accounting policies are explained in the relevant notes to the financial statements.

In terms of Directive 7: "The Application of Deemed Cost on the Adoption of Standards of GRAP" issued by the Accounting Standards Board, the Municipality applied deemed cost to Investment Property, Property, Plant and Equipment and Intangible where the acquisition cost of an asset could not be determined.

1.2. PRESENTATION CURRENCY

Amounts reflected in the financial statements are in South African Rand and at actual values. Financial values are rounded to the nearest one Rand.

1.3. GOING CONCERN ASSUMPTION

These annual financial statements have been prepared on a going concern basis.

1.4. COMPARATIVE INFORMATION

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated, unless a standard of GRAP does not require the restatements of comparative information. The nature and reason for the reclassification is disclosed. Where material accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

1.5 AMENDED DISCLOSURE POLICY

Amendments to accounting policies are reported as and when deemed necessary based on the relevance of any such amendment to the format and presentation of the annual financial statements. The principal amendments to matters disclosed in the current financial statements include errors.

1.6. MATERIALITY

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decision or assessments of users made on the basis of the annual financial statements. Materiality depends on the nature or size of the omission or misstatements judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor. Materiality is determined as 1% of total expenditure. This materiality is from management's perspective and does not correlate with the auditor's materiality.

1.7. PRESENTATION OF BUDGET INFORMATION

The presentation of budget information is prepared in accordance with GRAP 24 and based on the Municipal Budget and Reporting Regulations format. The comparison of budget and actual amounts are disclosed as separate additional financial statements, namely Statements of comparison of budget and actual amounts.

Budget information is presented on the accrual basis and is based on the same period as the actual amounts, i.e. 1 July 2014 to 30 June 2015. The budget information is therefore on a comparable basis to the actual amounts.

The comparable information includes the following:

- the approved and final budget amounts;
- actual amounts and final budget amounts;

Explanations for differences between the approved and final budget are included in the Statements of Comparison of Budget and Actual Amounts.

Explanations for material differences between the final budget amounts and actual amounts are included in the Statements of Comparison of Budget and Actual Amounts. Material differences are being defined by Management as 10% of a specific line-item with a minimum of R1 million.

The disclosure of comparative information in respect of the previous period is not required in terms of GRAP 24.

EMALAHLENI MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

1.8. STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

GRAP 18 Segment Reporting is effective from 1 April 2015. The implementation of GRAP 18 is delayed, in terms of Directive 5, for municipalities for the 2015/16 financial year.

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the Municipality:

Standard	Description	Effective Date
GRAP 20 (Original – June 2011)	<p>Related Party Disclosure</p> <p>The objective of this Standard is to ensure that an Municipality's financial statements contains the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.</p> <p>The Municipality resolved to formulate an accounting policy based on the disclosure requirements as per GRAP 20. The information is therefore included in the financial statements.</p>	Unknown
GRAP 32 (Original – Aug 2013)	<p>Service Concession Arrangements: Grantor</p> <p>The objective of this Standard is to prescribe the accounting for service concession arrangements by the grantor and a public sector entity.</p> <p>No significant impact is expected as the Municipality's current treatment is already in line with the Standards treatment.</p>	Unknown
GRAP 105 (Original – Nov 2010)	<p>Transfer of Functions Between Entities Under Common Control</p> <p>The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control.</p> <p>No significant impact is expected as the Municipality does not participate in such business transactions and no such transactions or events are expected in the foreseeable future.</p>	1 April 2015
GRAP 106 (Original – Nov 2010)	<p>Transfer of Functions Between Entities Not Under Common Control</p> <p>The objective of this Standard is to establish accounting principles for the acquirer in a transfer of</p>	1 April 2015

EMALAHLENI MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

	<p>functions between entities not under common control.</p> <p>No significant impact is expected as the Municipality does not participate in such business transactions and no such transactions or events are expected in the foreseeable future.</p>	
<p>GRAP 107 (Original – Nov 2010)</p>	<p>Mergers</p> <p>The objective of this Standard is to establish accounting principles for the combined entity and combining entities in a merger.</p> <p>No significant impact is expected as the Municipality does not participate in such business transactions and no such transactions or events are expected in the foreseeable future.</p>	<p>1 April 2015</p>
<p>GRAP 108 (Original – Sept 2013)</p>	<p>Statutory Receivables</p> <p>The objective of this Standard is to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.</p> <p>The Municipality has resolved to adopt the principles as set out in GRAP 108 to formulate its own accounting policy.</p>	<p>Unknown</p>
<p>IGRAP 11</p>	<p>Consolidation - Special Purpose Entities (SPE)</p> <p>The objective of this Interpretation of the Standard is to prescribe under what circumstances an entity should consolidate a SPE.</p> <p>No significant impact is expected as the Municipality does not have any SPE's at this stage.</p>	<p>1 April 2015</p>
<p>IGRAP 12</p>	<p>Jointly Controlled Entities non-monetary contributions</p> <p>The objective of this Interpretation of the Standard is to prescribe the treatment of profit/loss when an asset is sold or contributed by the venturer to a Jointly Controlled Entity (JCE).</p> <p>No significant impact is expected as the Municipality does not have any JCE's at this stage.</p>	<p>1 April 2015</p>

These standards, amendments and interpretations will not have a significant impact on the Municipality once implemented.

1.9. LEASES

1.9.1 Municipality as Lessee

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the Municipality. Property, plant and equipment or intangible assets (excluding licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights) subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the Municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment, investment property or intangibles assets. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to de-recognition of financial instruments are applied to lease payables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined expenses and actual payments made will give rise to a liability. The Municipality recognises the aggregate benefit of incentives as a reduction of rental expense over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

1.9.2 Municipality as Lessor

Under a finance lease, the Municipality recognises the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the Municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease instalments received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies relating to de-recognition and impairment of financial instruments are applied to lease receivables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease revenue is recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined revenue and actual payments received will give rise to an asset. The Municipality recognises the aggregate cost of incentives as a reduction of rental revenue over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern over which the benefit of the leased asset is diminished.

1.10. UNSPENT CONDITIONAL GOVERNMENT GRANTS AND RECEIPTS

Conditional government grants are subject to specific conditions. If these specific conditions are not met, the monies received are repayable.

Unspent conditional grants are financial liabilities that are separately reflected on the Statement of Financial Position. They represent unspent government grants, subsidies and contributions from the public.

This liability always has to be cash-backed. The following provisions are set for the creation and utilisation of this creditor:

- Unspent conditional grants are recognised as a liability when the grant is received.
- When grant conditions are met an amount equal to the conditions met are transferred to revenue in the Statement of Financial Performance.
- The cash which backs up the creditor is invested as individual investment or part of the general investments of the Municipality until it is utilised.
- Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor. If it is the Municipality's interest, it is recognised as interest earned in the Statement of Financial Performance.

1.11. UNPAID CONDITIONAL GOVERNMENT GRANTS AND RECEIPTS

Unpaid conditional grants are assets in terms of the Framework that are separately reflected on the Statement of Financial Position. The asset is recognised when the Municipality has an enforceable right to receive the grant or if it is virtually certain that it will be received based on that grant conditions have been met. They represent unpaid government grants, subsidies and contributions from the public.

The following provisions are set for the creation and utilisation of grant receivables:

- Unpaid conditional grants are recognised as an asset when the grant is receivable.

1.12. PROVISIONS

Provisions are recognised when the Municipality has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resource embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate of future outflows of resources. Where the effect is material, non-current provisions are discounted to their present value using a discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability.

The Municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the probability of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed where an inflow of economic benefits or service potential is probable.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:

- (a) The Municipality has a detailed formal plan for the restructuring identifying at least:
- the business or part of a business concerned;
 - the principal locations affected;
 - the location, function and approximate number of employees who will be compensated for terminating their services;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented.
- (b) The Municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision is de-recognised.

1.13. EMPLOYEE BENEFITS

Defined contribution plans are post-employment benefit plans under which the Municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

1.13.1 Post-Retirement Medical Obligations

The Municipality provides post-retirement medical benefits by subsidizing the medical aid contributions of certain retired staff according to the rules of the medical aid funds. Council pays 60% as contribution and the remaining 40% are paid by the members. For retired members, Council pays 70% as contribution and the remaining 30% are paid by the members. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The present value of the defined benefit liability is actuarially determined in accordance with GRAP 25 – Employee benefits (using a discount rate applicable to high quality government bonds). The plan is unfunded.

These contributions are charged to the Statement of Financial Performance when employees have rendered the service entitling them to the contribution. The liability was calculated by means of the projected unit credit actuarial valuation method. The liability in respect of current pensioners is regarded as fully accrued, and is therefore not split between a past (or accrued) and future in-service element. The liability is recognised at the fair value of the obligation. Payments made by the Municipality are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are charged against the Statement of Financial Performance as employee benefits upon valuation.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions, is charged or credited to the Statement of Financial Performance

in the period that it occurs. These obligations are valued periodically by independent qualified actuaries.

1.13.2 Long Service Awards

Long service awards are provided to employees who achieve certain pre-determined milestones of service within the Municipality. The Municipality's obligation under these plans is valued by independent qualified actuaries annually and the corresponding liability is raised. Payments are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are recognised in the Statement of Financial Performance as employee benefits upon valuation.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions, is recognised in the Statement of Financial Performance in the period that it occurs. These obligations are valued periodically, unless circumstances change significantly in which case it is done annually, by independent qualified actuaries.

1.13.3 Staff Leave accrued

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total amount of leave days due to employees at year-end and also on the total remuneration package of the employee.

Accumulating leave is carried forward and can be used in future periods if the current period's entitlement is not used in full. All unused leave will be paid out to the specific employee at the end of that employee's employment term. Unused leave is being capped at 48 days.

Accumulated leave is vesting.

1.13.4 Staff Bonuses Accrued

Liabilities for staff bonuses are recognised as they accrue to employees. The liability at year end is based on bonus accrued at year-end for each employee.

1.13.5 Provision for Performance Bonuses

A provision, in respect of the liability relating to the anticipated costs of performance bonuses payable to Section 57 employees, is recognised as it accrue to Section 57 employees. Municipal entities' performance bonus provisions are based on the employment contract stipulations as well as previous performance bonus payment trends.

1.13.6 Pension and retirement fund obligations

The Municipality provides retirement benefits for its employees and councillors.

Defined contribution plans are post-employment benefit plans under which the Municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

The contributions to fund obligations for the payment of retirement benefits are recognised in the Statement of Financial Performance in the year they become payable.

The defined benefit funds, which are administered on a provincial basis, are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on a proportional basis to all participating municipalities. The contributions and lump sum payments are recognised in the Statement of Financial Performance in the year they become payable. Sufficient information is not available to use defined benefit accounting for a multi-employer plan. As a result, defined benefit plans have been accounted for as if they were defined contribution plans.

1.13.7 Other Short-term Employee Benefits

When an employee has rendered service to the Municipality during a reporting period, the Municipality recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the Municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

1.14. BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset.

The amount of borrowing costs that the Municipality capitalises during a period does not exceed the amount of borrowing costs it incurred during that period. The Municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. Borrowing costs incurred other than on qualifying assets are recognised as an expense in the Statement of Financial Performance when incurred.

1.15. PROPERTY, PLANT AND EQUIPMENT

1.15.1 Initial Recognition

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. The cost of an item of property, plant and equipment is recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the Municipality, and the cost or fair value of the item can be measured reliably. Items of property, plant and equipment are initially recognised as

assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an asset is acquired by the Municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the assets acquired is initially measured at fair value (the cost). If the acquired item's fair value is not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the Municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

1.15.2 Subsequent Measurement – Cost Model

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Where the Municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits or service potential associated with the asset.

1.15.3 Depreciation and Impairment

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The annual depreciation rates are based on the following estimated useful lives:

Asset Class	Asset Sub-grouping	Useful Life (Yrs)
Land	None	Indefinite
Buildings	None	20 - 100
Infrastructure	Landfill Site	10 - 100
	Electricity	2 - 75
	Water	12 - 182
	Roads	2 - 103
	Security Measures	5 - 50
Community Assets	Cemetries & Fencing	10 - 100
	Halls	90 - 100
	Library	90 - 100
	Buildings Other	20 - 100
	Parks and Gardens	10 - 50
	Recreation	5 - 100
Leased Asset	None	1 - 13
Heritage	None	Indefinite
Other Assets	Computer Hardware	2 - 15
	Plant and Equipment	1 - 20
	Furniture and Other Office Equipment	2 - 35
	Vehicles and Specialised Vehicles	2 - 55

Property, plant and equipment are reviewed at each reporting date for any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The impairment recognised in the Statement of Financial Performance is the excess of the carrying value over the recoverable amount.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of an impairment is recognised in the Statement of Financial Performance.

1.15.4 De-recognition

Items of property, plant and equipment are derecognised when the asset is disposed or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.15.5 Land and buildings and Other Assets – application of deemed cost (Directive 7)

The Municipality opted to take advantage of the transitional provisions as contained in Directive 7 of the Accounting Standards Board, issued in December 2009. The Municipality applied deemed cost where the acquisition cost of an asset could not be determined. For Land and Buildings the fair value as determined by a valuator was used in order to determine the deemed cost as on 1 July 2010. For Other Assets the depreciation cost method was used to establish the deemed cost as on 1 July 2010.

1.16. INTANGIBLE ASSETS

1.16.1 Initial Recognition

An intangible asset is an identifiable non-monetary asset without physical substance.

An asset meets the identifiability criterion in the definition of an intangible asset when it:

- is separable, i.e. is capable of being separated or divided from the Municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the Municipality intends to do so; or
- arises from binding arrangements from contracts, regardless of whether those rights are transferable or separable from the Municipality or from other rights and obligations.

The Municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the Municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- the Municipality intends to complete the intangible asset for use or sale;
- it is technically feasible to complete the intangible asset;
- the Municipality has the resources to complete the project;
- it is probable that the Municipality will receive future economic benefits or service potential; and
- the Municipality can measure reliably the expenditure attributable to the intangible asset during its development.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value is not determinable, its deemed cost is the carrying amount of the asset(s) given up.

1.16.2 Subsequent Measurement – Cost Model

Intangible assets are subsequently carried at cost less accumulated amortisation and any accumulated impairments losses. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

1.16.3 Amortisation and Impairment

Amortisation is charged so as to write off the cost or valuation of intangible assets over its estimated useful lives using the straight line method. Amortisation of an asset begins

when it is available for use, i.e. when it is in the condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are amortised separately. The estimated useful lives, residual values and amortisation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The annual amortisation rates are based on the following estimated useful lives:

<u>Intangible Assets</u>	<u>Years</u>
Computer Software	2 - 10
Computer Software Licenses	2 - 10

1.16.4 De-recognition

Intangible assets are derecognised when the asset is disposed or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.16.5 Application of deemed cost (Directive 7)

The Municipality opted to take advantage of the transitional provisions as contained in Directive 7 of the Accounting Standards Board, issued in December 2009. The Municipality applied deemed cost where the acquisition cost of an asset could not be determined. For Intangible Assets the depreciated replacement cost method was used to establish the deemed cost as on 1 July 2010.

1.17. INVESTMENT PROPERTY

1.17.1 Initial Recognition

Investment property is recognised as an asset when, and only when:

- it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the Municipality, and
- the cost or fair value of the investment property can be measured reliably.

Investment property includes property (land or a building, or part of a building, or both land and buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations. Property with a currently undetermined use, is also classified as investment property.

At initial recognition, the Municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition. The cost of self-constructed investment property is measured at cost.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied

property becomes an investment property, the Municipality accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

1.17.2 Subsequent Measurement – Cost Model

Subsequent to initial recognition, items of investment property are measured at cost less accumulated depreciation and any accumulated impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

1.17.3 Depreciation and Impairment – Cost Model

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

<u>Investment Property</u>	<u>Years</u>
Buildings	20 - 100

1.17.4 De-recognition

Investment property is derecognised when it is disposed or when there are no further economic benefits expected from the use of the investment property. The gain or loss arising on the disposal or retirement of an item of investment property is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.17.5 Application of deemed cost - Directive 7

The Municipality opted to take advantage of the transitional provisions as contained in Directive 7 of the Accounting Standards Board, issued in December 2009. The Municipality applied deemed cost where the acquisition cost of an asset could not be determined. The fair value as determined by a valuator was used in order to determine the deemed cost as on 1 July 2010.

1.18. HERITAGE ASSETS

1.18.1 Initial Recognition

A heritage asset is defined as an asset that has a cultural, environmental, historical, natural, scientific, technological or artistic significance and is held and preserved indefinitely for the benefit of present and future generations.

A heritage asset is recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the asset will flow to the Municipality, and the cost or fair value of the asset can be measured reliably.

A heritage asset that qualifies for recognition as an asset, is measured at its cost. Where a heritage asset is acquired through a non-exchange transaction, its cost is deemed to be its fair value as at the date of acquisition.

1.18.2 Subsequent Measurement – Cost Model

After recognition as an asset, heritage assets are carried at its cost less any accumulated impairment losses.

1.18.3 Depreciation and Impairment

Heritage assets are not depreciated

Heritage assets are reviewed at each reporting date for any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The impairment recognised in the Statement of Financial Performance is the excess of the carrying value over the recoverable amount.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of an impairment is recognised in the Statement of Financial Performance.

1.18.4 De-recognition

Heritage assets are derecognised when it is disposed or when there are no further economic benefits expected from the use of the heritage asset. The gain or loss arising on the disposal or retirement of a heritage asset is determined as the difference between the sales proceeds and the carrying value of the heritage asset and is recognised in the Statement of Financial Performance.

1.18.5 Application of deemed cost - Directive 7

The Municipality opted to take advantage of the transitional provisions as contained in Directive 7 of the Accounting Standards Board, issued in December 2009. The Municipality applied deemed cost where the acquisition cost of an asset could not be determined. The fair value as determined by a valuator was used in order to determine the deemed cost as on 1 July 2010.

1.19. IMPAIRMENT OF NON-FINANCIAL ASSETS

1.19.1 Cash-generating assets

Cash-generating assets are assets held with the primary objective of generating a commercial return.

The Municipality assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Municipality estimates the asset's recoverable amount.

In assessing whether there is any indication that an asset may be impaired, the Municipality considers the following indications:

- (a) External sources of information

-
- During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.
 - Significant changes with an adverse effect on the Municipality have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the Municipality operates or in the market to which an asset is dedicated.
 - Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.

(b) Internal sources of information

- Evidence is available of obsolescence or physical damage of an asset.
- Significant changes with an adverse effect on the Municipality have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.
- Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

The re-designation of assets from a cash-generating asset to a non-cash generating asset or from a non-cash-generating asset to a cash-generating asset shall only occur

when there is clear evidence that such a re-designation is appropriate. A re-designation, by itself, does not necessarily trigger an impairment test or a reversal of an impairment loss. Instead, the indication for an impairment test or a reversal of an impairment loss arises from, as a minimum, the indications listed above.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. Impairment losses are recognised in the Statement of Financial Performance in those expense categories consistent with the function of the impaired asset.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the asset is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Municipality estimates the asset's or CGU's recoverable

amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Financial Performance.

1.19.2 Non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

The Municipality assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Municipality estimates the asset's recoverable service amount.

In assessing whether there is any indication that an asset may be impaired, the Municipality considers the following indications:

(a) External sources of information

- Cessation, or near cessation, of the demand or need for services provided by the asset.
- Significant long-term changes with an adverse effect on the Municipality have taken place during the period or will take place in the near future, in the technological, legal or government policy environment in which the Municipality operates.

(b) Internal sources of information

- Evidence is available of physical damage of an asset.
- Significant long-term changes with an adverse effect on the Municipality have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, or plans to dispose of an asset before the previously expected date.
- A decision to halt the construction of the asset before it is complete or in a usable condition.
- Evidence is available from internal reporting that indicates that the service performance of an asset is, or will be, significantly worse than expected.

An asset's recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use. If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss is recognised in the Statement of Financial Performance.

The value in use of a non-cash-generating asset is the present value of the asset's remaining service potential. The present value of the remaining service potential of the asset is determined using any one of the following approaches, depending on the nature of the asset in question:

- *depreciation replacement cost approach* - the present value of the remaining service potential of an asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.
- *restoration cost approach* - the cost of restoring the service potential of an asset to its pre-impaired level. Under this approach, the present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is usually determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.
- *service unit approach* - the present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform with the reduced number of service units expected from the asset in its impaired state. As in the restoration cost approach, the current cost of replacing the remaining service potential of the asset before impairment is usually determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

An impairment loss is recognised immediately in surplus or deficit, unless the asset is carried at a revalued amount in accordance with another Standard of GRAP. Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that Standard of GRAP.

The Municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased. If any such indication exists, the Municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for an asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset is increased to its recoverable service amount. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods. Such a reversal of an impairment loss is recognised in the Statement of Financial Performance.

1.20. INVENTORIES

1.20.1 Initial Recognition

Inventories comprise of current assets held for sale, consumption or distribution during the ordinary course of business. Inventories are recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the Municipality, and the cost of the inventories can be measured reliably. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus non-recoverable taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the Municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

1.20.2 Subsequent Measurement

Inventories, consisting of consumable stores, raw materials, work-in-progress and finished goods, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. Redundant and slow-moving inventories are identified and written down. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

The basis of allocating cost to inventory items is the weighted average method.

1.21. FINANCIAL INSTRUMENTS

Financial instruments recognised on the Statement of Financial Position include receivables (both from exchange transactions and non-exchange transactions), cash and cash equivalents, annuity loans and payables (both from exchange and non-exchange transactions) and non-current investments. The future utilization of Unspent Conditional Grants is evaluated in order to determine whether it is treated as financial instruments.

1.21.1 Initial Recognition

Financial instruments are initially recognised when the Municipality becomes a party to the contractual provisions of the instrument at fair value plus, in the case of a financial asset or financial liability not at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. If finance charges in respect of financial assets and financial liabilities are significantly different from similar charges usually obtained in an open market transaction, adjusted for the specific risks of the municipality, such differences are immediately recognised in the period it occurs, and the unamortised portion adjusted over the period of the loan transactions.

1.21.2 Subsequent Measurement

Financial assets are categorised according to their nature as either financial assets at fair value, financial assets at amortised cost or financial assets at cost. Financial liabilities are categorised as either at fair value or financial liabilities carried at amortised cost. The subsequent measurement of financial assets and liabilities depends on this categorisation.

1.21.2.1 Receivables

Receivables are classified as financial assets at amortised cost, and are subsequently measured at amortised cost using the effective interest rate method.

For amounts due from debtors carried at amortised cost, the Municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. Objective evidence of impairment includes significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 90 days overdue). If the Municipality determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics

and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Financial Performance. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Municipality. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in the Statement of Financial Performance.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate, if material. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

1.21.2.2 Payables and Annuity Loans

Financial liabilities consist of payables and annuity loans. They are categorised as financial liabilities held at amortised cost, and are initially recognised at fair value

and subsequently measured at amortised cost using an effective interest rate, which is the initial carrying amount, less repayments, plus interest.

1.21.2.3 Cash and Cash Equivalents

Cash includes cash on hand (including petty cash) and cash with banks. Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, highly liquid deposits and net of bank overdrafts. The Municipality categorises cash and cash equivalents as financial assets carried at amortised cost.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities carried at amortised cost.

1.21.2.4 Non-Current Investments

Investments which include investments in municipal entities and fixed deposits invested in registered commercial banks, are stated at amortised cost.

Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the Statement of Financial Performance in the period that the impairment is identified.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is recognised in the Statement of Financial Performance.

The carrying amounts of such investments are reduced to recognise any decline, other than a temporary decline, in the value of individual investments.

1.21.3 De-recognition of Financial Instruments

1.21.3.1 Financial Assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Municipality has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Municipality has transferred substantially all the risks and rewards of the asset, or (b) the Municipality has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Municipality has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the old asset is derecognised and a new asset is recognised to the extent of the Municipality's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Municipality could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Municipality's continuing involvement is the amount of the transferred asset that the Municipality may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

1.21.3.2 Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the Statement of Financial Performance.

1.21.4 Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

1.22 STATUTORY RECEIVABLES

Statutory receivables arise from legislation, supporting regulations, or similar means and require settlement by another entity in cash or another financial asset. Statutory receivables can arise from both exchange and non-exchange transactions.

1.22.1 Initial Recognition

Statutory receivables are recognised when the related revenue is recognised.

1.22.2 Measurement

The Municipality initially measures the statutory receivables at their transaction amount. The Municipality measure statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to reflect any:

- (a) interest or other charges that may have accrued on the receivable;
- (b) impairment losses; and
- (c) amounts derecognised.

The Municipality assesses at each reporting date whether there is any indication that a statutory receivable may be impaired. If there is an indication that a statutory receivable may be impaired, the Municipality measures the impairment loss as the difference

between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable is reduced, through the use of an allowance account. The amount of the loss is recognised in the Statement of Financial Performance. In estimating the future cash flows, the Municipality considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, the Municipality discounts the estimated future cash flows using a rate that reflects the current risk free rate and any risks specific to the statutory receivable for which the future cash flow estimates have not been adjusted.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows. Any previously recognised impairment loss is adjusted by adjusting the allowance account. The amount of any adjustment is recognised in the Statement of Financial Performance.

1.22.3 Derecognition

The Municipality derecognises a statutory receivable when:

- (a) the rights to the cash flows from the receivable are settled, expire or are waived;
- (b) the Municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or
- (c) the Municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the Municipality:
 - (i) derecognise the receivable; and
 - (ii) recognise separately any rights and obligations created or retained in the transfer.

1.23. REVENUE

1.23.1 *Revenue from Non-Exchange Transactions*

Revenue from non-exchange transactions refers to transactions where the Municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred, meet the criteria for recognition as an asset. A corresponding liability is recognised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. At the time of initial recognition the full amount of revenue is recognised. If the Municipality does not enforce its obligation to collect the revenue, this would be considered as a subsequent event. Collection charges are recognised when such

amounts are legally enforceable. Rebates and discounts are offset against the related revenue, in terms of IGRAP 1, as there is no intention of collecting this revenue.

Penalty interest on unpaid rates is recognised on a time proportionate basis as an exchange transaction.

Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the Municipality. Where public contributions have been received, but the Municipality has not met the related conditions, it is recognised as an unspent public contribution (liability).

Revenue from third parties i.e. insurance payments for assets impaired, are recognised when it can be measured reliably and is not being offset against the related expenses of repairs or renewals of the impaired assets.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the Municipality.

All unclaimed deposits are initially recognised as a liability until 12 months expires, when all unclaimed deposits into the Municipality's bank account will be treated as revenue. Historical patterns have indicated that minimal unidentified deposits are reclaimed after a period of twelve months. This assessment is performed annually at 30 June. Therefore the substance of these transactions indicate that even though the prescription period for unclaimed monies is legally three years, it is reasonable to recognise all unclaimed monies older than twelve months as revenue. Although unclaimed deposits are recognised as revenue after 12 months, the Municipality still keep record of these unclaimed deposits for three years in the event that a party should submit a claim after 12 months, in which case it will be expensed.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No. 56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

Revenue is measured at the fair value of the consideration received or receivable.

When, as a result of a non-exchange transaction, a Municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the present obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability will be recognised as revenue.

1.23.2 Revenue from Exchange Transactions

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

Revenue from exchange transactions refers to revenue that accrued to the Municipality directly in return for services rendered or goods sold, the value of which approximates the consideration received or receivable.

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- The Municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods.
- The Municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits or service potential associated with the transaction will flow to the Municipality.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

At the time of initial recognition the full amount of revenue is recognised where the Municipality has an enforceable legal obligation to collect, unless the individual collectability is considered to be improbable. If the Municipality does not successfully enforce its obligation to collect the revenue this would be considered a subsequent event.

Service charges relating to electricity is based on consumption and a basic charge as per Council resolution. Meters are read on a monthly basis and are recognised as revenue when invoiced. Where the Municipality was unable to take the actual month's reading of certain consumers, a provisional estimate of consumption for that month will be created. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period.

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale. It is estimated that pre-paid electricity is consumed within 5 to 7 days after date of purchase. The pre-paid electricity sold, but not consumed yet at year-end is disclosed as under Payables from Exchange Transactions in the Statement of Financial Position.

Service charges relating to refuse removal are recognised on an annual basis in advance by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse points per property.

Interest revenue is recognised using the effective interest rate method.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant tariff. This includes the issuing of licences and permits.

Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods are passed to the consumer.

Revenue from the sale of goods is recognised when:

- Substantially all the risks and rewards in those goods are passed to the consumer; and
- The municipality seizes managerial involvement and control of the goods; and
- The amount of the revenue can be measured reliably; and
- It is probable that economic benefits or service potential associated with the transaction will flow to the municipality; and
- The costs incurred or to be incurred can be measured reliably.

Revenue arising out of situations where the Municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the Municipality as compensation for executing the agreed services.

Revenue is measured at the fair value of the consideration received or receivable.

The amount of revenue arising on a transaction is usually determined by agreement between the Municipality and the purchaser or user of the asset or service. It is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the Municipality.

In most cases, the consideration is in the form of cash or cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable.

However, when the inflow of cash or cash equivalents is deferred, the fair value of the consideration may be less than the nominal amount of cash received or receivable. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The imputed rate of interest is the more clearly determinable of either:

- The prevailing rate for a similar instrument of an issuer with a similar credit rating;
- A rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue.

When goods or services are exchanged or swapped for goods or services which are of a similar nature and value, the exchange is not regarded as a transaction that generates revenue. When goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction that generates revenue. The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

1.24. RELATED PARTIES

The Municipality resolved to formulate an accounting policy based on the disclosure requirements as per GRAP 20 – "Related Party Disclosures".

A related party is a person or an entity:

- with the ability to control or jointly control the other party,
- or exercise significant influence over the other party, or vice versa,
- or an entity that is subject to common control, or joint control.

The following are regarded as related parties of the Municipality:

- (a) A person or a close member of that person's family is related to the Municipality if that person:
 - has control or joint control over the Municipality.
 - has significant influence over the Municipalities. Significant influence is the power to participate in the financial and operating policy decisions of the Municipality.
 - is a member of the management of the Municipality or its controlling entity.
- (b) An entity is related to the Municipality if any of the following conditions apply:
 - the entity is a member of the same Municipality (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others).
 - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an Municipality of which the other entity is a member).
 - both entities are joint ventures of the same third party.
 - one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - the entity is a post-employment benefit plan for the benefit of employees of either the Municipality or an entity related to the Municipality. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity.
 - the entity is controlled or jointly controlled by a person identified in (a).
 - a person identified in (a) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by that person in their dealings with the Municipality. A person is considered to be a close member of the family of another person if they:

- (a) are married or live together in a relationship similar to a marriage; or
- (b) are separated by no more than two degrees of natural or legal consanguinity or affinity.

Management (formerly known as "Key Management") includes all persons having the authority and responsibility for planning, directing and controlling the activities of the Municipality, including:

- (a) all members of the governing body of the Municipality;
- (b) a member of the governing body of an Municipality who has the authority and responsibility for planning, directing and controlling the activities of the Municipality;
- (c) any key advisors of a member, or sub-committees, of the governing body who has the authority and responsibility for planning, directing and controlling the activities of the Municipality; and
- (d) the senior management team of the Municipality, including the chief executive officer or permanent head of the Municipality, unless already included in (a).

Management personnel include:

- (a) All directors or members of the governing body of the Municipality, being the Executive Mayor, Deputy Mayor, Speaker and members of the Mayoral Committee.
- (b) Other persons having the authority and responsibility for planning, directing and controlling the activities of the reporting Municipality being the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

Remuneration of management includes remuneration derived for services provided to the Municipality in their capacity as members of the management team or employees. Benefits derived directly or indirectly from the Municipality for services in any capacity other than as an employee or a member of management do not meet the definition of remuneration. Remuneration of management excludes any consideration provided solely as a reimbursement for expenditure incurred by those persons for the benefit of the Municipality.

The Municipality operates in an economic environment currently dominated by entities directly or indirectly owned by the South African government. As a result of the Constitutional independence of all three spheres of government in South Africa, only parties within the same sphere of government will be considered to be related parties. Only transactions with such parties which are not at arm's length and not on normal commercial terms are disclosed.

1.25. UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in a form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No. 56 of 2003). Unauthorised expenditure is accounted for as an expense (measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.26. IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No. 56 of 2003), the Municipal Systems Act (Act No. 32 of 2000), the Public Office Bearers Act, and (Act. No. 20 of 1998) or is in contravention of the Municipality's Supply Chain Management Policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure (measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.27. FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and could have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure (measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.28. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Municipality. A contingent liability could also be a present obligation that arises from past events, but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to the obligation or the amount of the obligation cannot be measured with sufficient reliability. A Contingent assets usually arise from unplanned or other unexpected events that are not wholly within the control of the entity and give rise to the possibility of an inflow of economic benefits or service potential to the entity.

The Municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the probability of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed where the inflow of economic benefits or service potential is probable.

Management judgement is required when recognising and measuring contingent liabilities and assets.

1.29. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the Municipality's accounting policy, management has made the following significant accounting judgements, estimates and assumptions, which have the most significant effect on the amounts recognised in the annual financial statements:

1.29.1 *Post-retirement medical obligations and Long service awards*

The cost of post-retirement medical obligations and long service awards are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Major assumptions used are disclosed in note 3 of the annual financial statements. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

1.29.2 *Impairment of Receivables*

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This was performed per service-identifiable categories across all classes of debtors.

1.29.3 *Property, Plant and Equipment*

The useful lives of property, plant and equipment are based on management's estimation. Infrastructure's useful lives are based on technical estimates of the practical useful lives for the different infrastructure types, given engineering technical knowledge of the infrastructure types and service requirements. For other assets and buildings management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

Management referred to the following when making assumptions regarding useful lives and residual values of property, plant and equipment.

- The useful life of movable assets was determined using the age of similar assets available for sale in the active market. Discussions with people within the specific industry were also held to determine useful lives.
- Local Government Industry Guides was used to assist with the deemed cost and useful life of infrastructure assets.
- The Municipality referred to buildings in other municipal areas to determine the useful life of buildings. The Municipality also consulted with engineers to support the useful life of buildings, with specific reference to the structural design of buildings.

For deemed cost applied to other assets as per adoption of Directive 7, management used the depreciation cost method which was based on assumptions about the remaining duration of the assets.

The cost for depreciated replacement cost was determined by using either one of the following:

- cost of items with a similar nature currently in the Municipality's asset register;
- cost of items with a similar nature in other municipalities' asset registers, given that the other municipality has the same geographical setting as the Municipality and that the other municipality's asset register is considered to be accurate;
- cost as supplied by suppliers.

For deemed cost applied to land and buildings as per adoption of Directive 7, management made use of an independent valuator. The valuator's valuation was based on assumptions about the market's buying and selling trends and the remaining duration of the assets.

1.29.4 Intangible Assets

The useful lives of intangible assets are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate.

Reference was made to intangibles used within the Municipality and other municipalities to determine the useful life of the assets.

For deemed cost applied to intangible assets as per adoption of Directive 7, management used the depreciation cost method which was based on assumptions about the remaining duration of the asset.

1.29.5 Provisions and Contingent Liabilities

Management judgement is required when recognising and measuring provisions and when measuring contingent liabilities. Provisions are discounted where the time value effect is material.

1.29.6 Investment Property

The useful lives of investment property are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their economic lives, and in what condition they will be at that time.

Management referred to the following when making assumptions regarding useful lives and valuation of investment property:

- The Municipality referred to buildings in other municipal areas to determine the useful life of buildings.
- The Municipality also consulted with professional engineers and qualified valuers to support the useful life of buildings.

For deemed cost applied to Investment Property as per adoption of Directive 7, management made use of an independent valuator. The valuator's valuation was based on assumptions about the market's buying and selling trends and the remaining duration of the assets.

1.29.7 Revenue Recognition

Accounting Policy 1.23.1 on Revenue from Non-Exchange Transactions and Accounting Policy 1.23.2 on Revenue from Exchange Transactions describes the conditions under which revenue will be recognised by management of the Municipality.

In making their judgement, management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from Non-Exchange Transactions.). Specifically, whether the Municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services are rendered, whether the service has been performed. The management of the Municipality is satisfied that recognition of the revenue in the current year is appropriate.

1.29.8 Provision for Landfill Sites

The provision for rehabilitation of the landfill site is recognised as and when the environmental liability arises. The provision is calculated by a qualified environmental engineer. The provision represents the net present value at the reporting date of the expected future cash flows to rehabilitate the landfill site. To the extent that the obligations relate to an asset, it is capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are recognised in the Statement of Financial Performance.

Management referred to the following when making assumptions regarding provisions:

- Professional engineers were utilised to determine the cost of rehabilitation of landfill sites as well as the remaining useful life of each specific landfill site.
- Interest rates (investment rate) linked to prime was used to calculate the effect of time value of money.

1.29.9 Staff leave accrued

Staff leave is accrued to employees according to collective agreements. Provision is made for the full cost of accrued leave at reporting date. This provision will be realised as employees take leave or when employment is terminated. Unused leave is being capped at 48 days.

1.29.10 Provision for Performance bonuses

The provision for performance bonuses represents the best estimate of the obligation at year end and is based on historic patterns of payment of performance bonuses. Performance bonuses are subject to an evaluation by Council.

1.29.11 Pre-paid electricity estimation

Pre-paid electricity is only recognised as income once the electricity is consumed. The pre-paid electricity balance (included under payables) represents the best estimate of electricity sold at year-end that is still unused. The average pre-paid electricity sold per day during the year under review is used and the estimate is calculated using 5 days' worth of unused electricity.

1.29.12 Componentisation of Infrastructure assets

All infrastructure assets are unbundled into their significant components in order to depreciate all major components over the expected useful lives. The cost of each component is estimated based on the current market price of each component, depreciated for age and condition and recalculated to cost at the acquisition date if known or to the date of initially adopting the standards of GRAP.

1.29.13 Impairments of assets – Capitalised Restoration Cost

Impairment charges relating to capitalised restoration costs are linked to fluctuations in the discount rate used to unwind the provision relating to this asset. This discount rate is linked to the prime interest rate and any movement in this rate will result in the impairment/reversal of impairment of the asset.

1.30. TAXES – VALUE ADDED TAX

Revenue, expenses and assets are recognised net of the amounts of value added tax. The net amount of Value Added Tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

1.31. CAPITAL COMMITMENTS

Capital commitments disclosed in the annual financial statements represents the contractual balance committed to capital projects on reporting date that will be incurred in the period subsequent to the specific reporting date.

1.32. EVENTS AFTER REPORTING DATE

Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the annual financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

If non-adjusting events after the reporting date are material, the Municipality discloses the nature and an estimate of the financial effect.

1.33. DISCONTINUED OPERATIONS

Discontinued operation is a component of the Municipality that has been disposed of and:

- represents a distinguishable activity, group of activities or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a distinguishable activity, group of activities or geographical area of operations; or
- is a controlled entity acquired exclusively with a view to resale.

To qualify as a discontinued operation, the disposal must occur within a single co-ordinated plan. Once the disposal plan has been approved, the Municipality reclassifies all related assets and liabilities associated with the discontinued operations as a separate line-item in the Statement of Financial Position. The Municipality subsequently measures and account for assets and liabilities associated with discontinued operations in accordance with the respective Standards of GRAP applicable to that asset or liability.

All revenue and expenditure associated with the discontinued operations is disclosed as a one line-item in the Statement of Financial Performance. Detail of the revenue and expenditure associated with the discontinued operations is disclosed in the notes.

EMALAHLENI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

2

LONG-TERM LIABILITIES

	2016 R	2015 R
Capitalised Lease Liability - At amortised cost	575 286	684 370
Hire Purchase	73 063	146 012
	648 349	830 383
Less: Current Portion transferred to Current Liabilities	352 864	263 459
Capitalised Lease Liability - At amortised cost	295 485	566 924
Hire Purchase	73 063	72 950
Total Long-term Liabilities - At amortised cost	295 485	546 924

The obligations under finance leases are scheduled below:

	Minimum lease payments	
Amounts payable under finance leases:		
Payable within one year	352 890	292 251
Payable within two to five years	320 076	561 765
Payable after five years	-	-
	672 966	854 016
Less: Future finance obligations	(97 079)	(189 076)
Present value of lease obligations	575 286	664 370

The capitalised lease liability consist out of the following contracts:

Supplier	Description of leased item	Effective Interest rate	Annual Escalation	Lease Term	Maturity Date
Aloe Office and Business Solutions	1 x Xerox D65A CP PRO	17.30%	0%	3 Years	26/05/2018
Aloe Office and Business Solutions	2 x Xerox 7970 CPSF	17.72%	0%	3 Years	11/08/2018
Aloe Office and Business Solutions	5 x Xerox 5325 CPSF	17.30%	0%	3 Years	26/05/2018
Aloe Office and Business Solutions	6 x Xerox 6505 CPSF	17.30%	0%	3 Years	28/05/2018
Aloe Office and Business Solutions	2 x FASTBACK MODL 20	9.75%	0%	2.5 Years	28/04/2018

The obligations under hire purchase agreements are scheduled below:

	Minimum hire purchase payments	
Amounts payable under hire purchase agreements:		
Payable within one year	76 491	83 445
Payable within two to five years	-	78 491
Payable after five years	-	-
	76 491	161 936
Less: Future finance obligations	(3 429)	(13 824)
Present value of hire purchase obligations	73 063	146 012

Leases are secured by property, plant and equipment - Note

The capitalised hire purchase liability consist out of the following contracts:

Supplier	Description of leased item	Effective Interest rate	Annual Escalation	Lease Term	Maturity Date
Standard Bank	TOYOTA COROLLA	9.25%	0%	5 Years	15/05/2017
Standard Bank	NISSAN QASHQAI	9.25%	0%	5 Years	15/05/2017

The Toyota Corolla is no longer in use.

EMALAHLENI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

3	EMPLOYEE BENEFITS	2016 R	2015 R
	Post Retirement Benefits - Refer to Note 3.1	5 156 680	5 476 374
	Long Service Awards - Refer to Note 3.2	1 378 055	1 445 055
	Total Non-current Employee Benefit Liabilities	6 532 735	6 921 429
	Less: Transferred to Discontinued Operations - Note 51.2	-	(1 384 612)
	Balance 30 June	6 532 735	5 536 817
		2016 R	2015 R
	<u>Post Retirement Benefits</u>		
	Balance 1 July	4 348 117	5 220 472
	Contribution for the year	601 840	698 798
	Interest Cost	400 101	478 769
	Expenditure for the year	(80 651)	-
	Actuarial Gain	(84 203)	(905 937)
	Total post retirement benefits 30 June	5 203 204	5 493 702
	Less: Transfer of Current Portion - Note 5	(48 524)	(17 328)
	Balance 30 June	5 156 680	5 476 374
	Plus/Less: Transferred to Discontinued Operations - Note 50.2	-	(1 147 595)
	Balance 30 June	5 156 680	4 328 779
		2016 R	2015 R
	<u>Long Service Awards</u>		
	Balance 1 July	1 402 424	1 453 534
	Contribution for the year	281 148	290 363
	Interest Cost	101 918	104 361
	Expenditure for the year	(80 352)	(115 773)
	Actuarial Loss/(Gain)	(80 365)	(21 117)
	Total long service 30 June	1 605 773	1 711 418
	Less: Transfer of Current Portion - Note 5	(229 718)	(206 363)
	Balance 30 June	1 376 055	1 445 055
	Less: Transferred to Discontinued Operations - Note 50.2	-	(237 027)
	Balance 30 June	1 376 055	1 208 028
		2016 R	2015 R
	<u>TOTAL NON-CURRENT EMPLOYEE BENEFITS</u>		
	Balance 1 July	5 748 541	6 674 006
	Contribution for the year	882 988	989 161
	Interest cost	502 016	584 160
	Expenditure for the year	(160 003)	(115 773)
	Actuarial Loss/(Gain)	(104 568)	(928 454)
	Total employee benefits 30 June	6 868 977	7 205 120
	Less: Transfer of Current Portion - Note 5	(276 242)	(283 691)
	Balance 30 June	6 532 735	6 921 429
	Less: Transferred to Discontinued Operations - Note 50.2	-	(1 384 612)
	Balance 30 June	6 532 735	5 536 817
3.1	Post Retirement Benefits		
	The Post Retirement Benefit Plan is a defined contribution plan, of which the members are made up as follows:		
	In-service (employee) members	87	88
	In-service (employee) non-members	108	110
	Continuation members (e.g. Retirees, widows, orphans)	2	1
	Total Members	197	206
	The liability in respect of past service has been estimated to be as follows:		
	In-service members	3 298 654	4 192 116
	In-service non-members	1 097 831	1 009 762
	Continuation members	806 719	291 804
	Total Liability	5 203 204	5 493 702
	The liability in respect of periods commencing prior to the comparative year has been estimated as follows:		
		2014 R	2013 R
	In-service members	4 533 928	3423100
	In-service non-members	886 846	248462
	Continuation members	-	-
	Total Liability	5 220 472	3 671 562
	Experience adjustments were calculated as follows:	2016 Rm	2015 Rm
	Liabilities: (Gain) / loss	(0.082)	(0.914)
		2014 Rm	2013 Rm
		-	0.282

EMALAHLENI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

3

EMPLOYEE BENEFITS (CONTINUED)

2016

2015

The municipality makes monthly contributions for health care arrangements to the following medical aid schemes:

Bonitas;
 Hormed
 LA Health
 Samwumed
 Key health

Key actuarial assumptions used:

%

%

i) Rate of interest

Discount rate
 Health Care Cost Inflation Rate
 Net Effective Discount Rate

9.20%

8.20%

0.84%

9.22%

8.32%

0.84%

The discount rate used is a composite of all government bonds and is calculated using a technique known as "bootstrapping"

ii) Mortality rates

The PA 90 ultimate table, rated down by 1 year of age was used by the actuaries.

iii) Normal retirement age

It has been assumed that in-service members will retire at age 60 for females and 65 for males, which then implicitly allows for expected rates of early and ill-health retirement.

R

R

The amounts recognised in the Statement of Financial Position are as follows:

Present value of fund obligations

5 203 204

5 493 702

Total Liability

5 203 204

5 493 702

The fund is entirely unfunded.

The municipality has elected to recognise the full increase in this defined contribution liability immediately as per GRAP 25

Reconciliation of present value of fund obligation:

Present value of fund obligation at the beginning of the year

4 346 117

5 220 472

Total expenses

941 290

1 178 567

Current service cost

601 840

666 796

Interest Cost

400 101

479 760

Benefits Paid

(50 651)

-

Actuarial (gains)/losses

(64 203)

(905 337)

Present value of fund obligation at the end of the year

5 203 204

5 493 702

Less: Transfer of Current Portion - Note 9

(46 524)

(17 328)

Balance 30 June

5 156 680

5 476 374

Less: Transferred to Discontinued Operations - Note 50.2

-

(1 147 585)

Balance 30 June

5 156 680

4 328 789

Sensitivity Analysis on the Accrued Liability

Assumption	In-service members liability (Rm)	Continuation members liability (Rm)	Total liability (Rm)	% change
Central Assumptions	4,396	0,807	5,203	

The effect of movements in the assumptions are as follows:

Assumption	Change	In-service members liability (Rm)	Continuation members liability (Rm)	Total liability (Rm)	% change
Health care inflation	1%	5,364	0,896	6,260	21%
Health care inflation	-1%	3,617	0,730	4,347	-16%
Discount Rate	1%	3,628	0,731	4,359	-16%
Discount Rate	-1%	5,395	0,896	6,291	21%
Post-retirement mortality	-1 year	4,568	0,837	5,395	4%
Average retirement age	-1 year	4,871	0,807	5,678	9%
Continuation of membership at retirement	-10%	3,504	0,807	4,311	-17%

Assumption	Change	Current-service Cost (R)	Interest Cost (R)	Total (R)	% change
Central Assumption		801 840	400 101	1 001 941	
Health care inflation	1%	750 600	486 300	1 235 900	22%
Health care inflation	-1%	487 200	333 000	820 200	-18%
Discount Rate	1%	493 400	370 200	863 600	-14%
Discount Rate	-1%	744 000	432 800	1 176 800	17%
Post-retirement mortality	-1 year	623 900	415 000	1 038 900	4%
Average retirement age	-1 year	655 700	436 400	1 095 100	9%
Continuation of membership at retirement	-10%	479 000	329 300	808 300	-19%

EMPLOYEE BENEFITS (CONTINUED)

2016

2015

3.2 Long Service Bonuses

The Long Service Bonus plans are defined benefit plans.

As at year end, the following number of employees were eligible for Long Service Bonuses.

195

204

Key actuarial assumptions used:

2016
%2015
%

i) Rate of Interest

Discount rate

8.41%

7.80%

General Salary Inflation (long-term)

7.08%

8.95%

Net Effective Discount Rate applied to salary-related Long Service Bonuses

1.25%

0.79%

The discount rate used is a composite of all government bonds and is calculated using a technique known as "bootstrapping"

R

R

The amounts recognised in the Statement of Financial Position are as follows:

Present value of fund obligations

1 605 773

1 711 418

Net liability

1 605 773

1 711 418

The liability in respect of periods commencing prior to the comparative year has been estimated as follows:

2014
R2013
R

Total Liability

1 453 534

1 189 744

Experience adjustments were calculated as follows:

2016
R2016
R2014
R

Liabilities: (Gain) / loss

(33 788)

88 604

107 994

The municipality performed their first actuarial valuation on 30 June 2012. Thus there are no experience adjustment figures available on or before 30 June 2012 to fully comply with GRAP 25

Reconciliation of present value of fund obligation:

R

R

Present value of fund obligation at the beginning of the year

1 402 424

1 453 534

Total expenses

283 714

279 001

Current service cost

281 148

290 393

Interest Cost

101 918

104 381

Benefits Paid

(99 352)

(115 773)

Actuarial (gains)/losses

(80 385)

(21 117)

Present value of fund obligation at the end of the year

1 605 773

1 711 418

Less: Transfer of Current Portion - Note 5

(229 718)

(286 383)

Balance 30 June

1 376 055

1 445 055

Less: Transferred to Discontinued Operations - Note 50.2

-

(237 027)

Balance 30 June

1 376 055

1 208 028

Sensitivity Analysis on the Unfunded Accrued Liability

Assumption

Change

Liability
(R)

% change

Central assumptions

1 606

General salary inflation

1.00%

1 607

6%

General salary inflation

-1.00%

1 522

-5%

Discount Rate

1.00%

1 518

-5%

Discount Rate

-1.00%

1 703

6%

Average retirement age

-2 yrs

1 513

-6%

Average retirement age

+2 yrs

1 683

4%

Withdrawal rates

-50.00%

1 928

20%

EMALAHLENI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

3

EMPLOYEE BENEFITS (CONTINUED)

2016

2015

3.2 Long Service Bonuses

The Long Service Bonus plans are defined benefit plans.

As at year end, the following number of employees were eligible for Long Service Bonuses.

	195	204
2016	2015	
%	%	
Key actuarial assumptions used:		
i) Rate of interest		
Discount rate	8.41%	7.80%
General Salary Inflation (long-term)	7.08%	8.95%
Net Effective Discount Rate applied to salary-related Long Service Bonuses	1.25%	0.79%

The discount rate used is a composite of all government bonds and is calculated using a technique known as "bootstrapping"

The amounts recognised in the Statement of Financial Position are as follows:

	R	R
Present value of fund obligations	1 605 773	1 711 418
Net liability	1 605 773	1 711 418

The liability in respect of periods commencing prior to the comparative year has been estimated as follows:

	2014	2013
	R	R
Total Liability	1 453 534	1 160 764
Experience adjustments were calculated as follows:		
Liabilities: (Gain) / loss	2016 R (33 788)	2015 R 68 604 2014 R 107 894

The municipality performed their first actuarial valuation on 30 June 2012. Thus there are no experience adjustment figures available on or before 30 June 2012 to fully comply with GRAP 25

Reconciliation of present value of fund obligation:

	R	R
Present value of fund obligation at the beginning of the year	1 402 424	1 453 534
Total expenses	283 714	278 001
Current service cost	281 148	280 363
Interest Cost	101 918	104 381
Benefits Paid	(99 352)	(116 773)
Actuarial (gains)/losses	(80 385)	(21 117)
Present value of fund obligation at the end of the year	1 605 773	1 711 418
LESS: Transfer of Current Portion - Note 5	(220 718)	(286 363)
Balance 30 June	1 376 055	1 445 055
Less: Transferred to Discontinued Operations - Note 50.2	-	(237 027)
Balance 30 June	1 376 055	1 208 028

Sensitivity Analysis on the Unfunded Accrued Liability

Assumption	Change	Liability (R)	% change
Central assumptions		1,608	
General salary inflation	1.00%	1,697	6%
General salary inflation	-1.00%	1,522	-5%
Discount Rate	1.00%	1,518	-5%
Discount Rate	-1.00%	1,703	6%
Average retirement age	-2 yrs	1,513	-6%
Average retirement age	+2 yrs	1,683	4%
Withdrawal rates	-50.00%	1,926	20%

EMPLOYEE BENEFITS (CONTINUED)

3.3 Retirement funds

2016

2015

<u>CAPE JOINT PENSION FUND</u>	
	Contributing members
The contribution rate payable is 5% by members and 18% by Council.	130

Contributions paid recognised in the Statement of Financial Performance

R
3 593 856R
2 530 353DEFINED CONTRIBUTION FUNDS

Council contribute to the South African Local Authorities Pension Fund, Municipal Councillors Pension Fund and SAMWU National Provident Fund which are defined contribution funds. The retirement benefit fund is subject to the Pension Fund Act, 1956, with pension being calculated on the pensionable remuneration paid. Current contributions by Council are charged against expenditure on the basis of current service costs.

	Last Actuarial Valuation	Contributing members
South African Local Authorities Pension Fund	2013/05/30	24
Municipal Councillors Pension Fund	2009/05/30	32
SAMWU National Provident Fund	2008/05/30	36

The last actuarial valuation performed for the year ended 30 June 2014 revealed that the fund is in a sound financial position with a

Note: The results of the actuarial valuations dated 30 June 2008 for SAMWU National Provident Fund and 30 June 2009 for Municipal Councillors Pension Funds are not yet available.

Contributions paid recognised in the Statement of Financial Performance

EMALAHLENI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

Sala Pension Fund	459 162	739 884
Municipal Councillors Pension Fund	899 309	751 782
SAMWU National Provident Fund	821 241	1 165 255
	<u>2 189 762</u>	<u>2 686 801</u>

3.4 Provision for Ex-Gratia payment- CFO

Balance at beginning of year	157 542	142 180
Contribution to current portion	14 472	15 382
Balance at end of year	<u>172 014</u>	<u>157 562</u>

In terms of the section 57 Employment contract of the Chief Financial Officer, an amount of 15% of his total package must be paid to him at the time of termination of employment

4 NON-CURRENT PROVISIONS	2016	2015
	R	R
Provision for Rehabilitation of Landfill-sites	(0)	0
Total Non-current Provisions	<u>(0)</u>	<u>0</u>

The Municipality operate on three landfill sites. The in year actual operational costs is expensed in the statement of financial performance. The provision is calculated in order to finance the rehabilitation cost of each cell when it reaches 100% capacity. The expected cash flow outflow; within one year; relates to all three sites of the case of all three sites there is already a shortcoming in the day to day operations of the sites these cost is represented by the short-term portion of the non-current provision. The landfill sites in operation are Lady Frere, Dordrecht and Indwe.

<u>Landfill Sites</u>	R	R
Balance 1 July	11 514 635	2 767 937
Increase in Estimate		8 601 703
Unwinding of discounted interest	(989 718)	144 964
Total provision 30 June	<u>10 525 917</u>	<u>11 514 635</u>
Less: Transfer to Current provisions	<u>(10 525 917)</u>	<u>(11 514 635)</u>
Balance 30 June	<u>(0)</u>	<u>0</u>

The municipality has an obligation to rehabilitate landfill sites at the end of the expected useful life. Total cost of rehabilitation of the current cell in operation and estimated date of decommission of the cell are as follows:

<u>Location</u>	<u>Estimated decommission date</u>	<u>Rehabilitation cost of cell in use</u>	<u>Rehabilitation cost of cell in use</u>
		R	R
Lady Frere landfill site is located approximately 2.0km west off Indwe road R 394	30/06/2018	3 607 207	6 750 964
Dordrecht landfill site is located off R56 about 900m after the Dordrecht town to Queenstown Route	11/09/2016	5 281 506	3 898 738
Indwe landfill site is located east off R56 approximately 260m before the town of Indwe	30/06/2019	1 657 204	884 912
		<u>10 525 917</u>	<u>11 514 635</u>

Material Assumptions used

<u>Area of landfill site consumed</u>	2014	2015	2016
Lady Frere landfill site is located approximately 2.0km west off Indwe road R 394	40.45%	100.00%	100.00%
Dordrecht landfill site is located off R56 about 900m after the Dordrecht town to Queenstown Route	74.83%	100.00%	100.00%
Indwe landfill site is located east off R56 approximately 260m before the town of Indwe	89.78%	100.00%	100.00%
Discount Rate used	4.71%	5.24%	

The discount rate used to calculate the present value of the rehabilitation costs at each reporting period is based on a calculated risk free rate as determined by the municipality. This rate is in line with a competitive investment rate the municipality can obtain from an A grade financial institution. This rate used is also within the inflation target range of the South African Reserve Bank of between 3% to 6%.

EMALAHLENI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

5

CURRENT EMPLOYEE BENEFITS

	2016 R	2015 R
Current Portion of Post Retirement Benefits - Note 3	48 624	17 328
Current Portion of Long-Service Provisions - Note 3	229 718	266 363
Staff leave accrued	4 772 484	5 156 292
Provision for Performance Bonuses	880 735	720 918
Staff Bonuses accrued	745 407	1 080 669
Provision for Compensation for injuries on duty contribution	354 609	737 054
Total Current Employee Benefits	7 129 468	7 978 524
Less: Transferred to Discontinued Operations - Note 50.2		(681 252)
Total Current Employee Benefits Continued	7 129 468	7 097 272

The movement in current employee benefits is reconciled as follows:

Staff leave accrued

Balance at beginning of year	4 484 110	4 126 161
Contribution to current portion	702 087	1 443 858
Expenditure incurred	(414 313)	(413 725)
Balance at end of year	4 772 484	5 156 292
Less: Transferred to Discontinued Operations - Note 50.2		(872 181)
Balance 30 June	4 772 484	4 484 110

Staff leave accrued to employees according to collective agreement. An accrual is made for the full cost of accrued leave at reporting date. The accrual will be realised as employees take leave. There is a possibility of reimbursement based on trends in the past.

Provision for Performance Bonuses

Balance at beginning of year	720 918	511 610
Contribution to current portion	1 031 647	714 879
Expenditure incurred	(771 730)	(505 572)
Balance at end of year	980 735	720 918

Performance bonuses are being paid to Municipal Manager and Directors after an evaluation of performance by the council.

Staff Bonuses accrued

Balance at beginning of year	943 455	936 324
Contribution to current portion	1 814 910	2 288 155
Expenditure incurred	(2 012 088)	(2 123 910)
Balance at end of year	745 407	1 080 669
Less: Transferred to Discontinued Operations - Note 50.2	(137 104)	(137 104)
Balance 30 June	882 511	943 465

Bonuses are being paid to all permanent employed municipal staff, excluding section 57 Managers. The balance at year end represent a portion of the bonus that have already vested for the current salary cycle.

Provision for Compensation for injuries on duty contribution

Balance at beginning of year	737 054	338 589
Contribution to current portion	374 857	399 455
Expenditure incurred	(757 282)	-
Balance at end of year	354 609	737 054

The balance on the compensation for injuries on duty contribution represents the current liability of the municipality that has not yet been paid over to the relevant authorities. The balance represents the best estimate the outflow of resources. The timing and amount of the outflow is dependant on when an assessment is received from the relevant authorities.

6

PAYABLES FROM EXCHANGE TRANSACTIONS

Trade Payables	16 083 803	10 684 284
Third party payables (Payroll)	16 339	1 035 623
Pre-paid electricity paid in advance	210 488	89 570
Advance payments debtors-billing	1 247 469	989 036
Retentions and Guarantees	4 134 813	4 207 184
Sundry Deposits	21 640	11 900
Sundry Creditors	94 806	1 259 180
Total Trade Payables	21 809 158	17 977 676

Payables are being recognised net of any discounts.

Payables are being paid within 30 days as prescribed by the MFMA. This credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of trade and other payables on initial recognition is not deemed necessary.

The carrying value of trade and other payables approximates its fair value. All payables are unsecured. Sundry deposits include half, tender and other general deposits. The Municipality did not default on any of their payables.

EMALAHLENI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

7	UNSPENT CONDITIONAL GOVERNMENT GRANTS AND RECEIPTS	R	R
	Unspent Grants	1 157 442	348 701
	National Government Grants	-	43 176
	Provincial Government Grants	1 157 442	305 526
	District Municipality	-	-
	Less: Unpaid Grants	-	-
	National Government Grants	-	-
	Total Conditional Grants and Receipts	1 157 442	348 701
	See appendix "D" for reconciliation of grants from other spheres of government. The municipality complied with the conditions attached to all grants received to the extent of revenue recognised. No grants were withheld.		
	Unspent grants can mainly be attributed to projects that are work in progress on the relevant financial year-ends.		
8	VAT	R	R
8.1	VAT PAYABLE		
	VAT Payable	3 281 166	3 171 013
	Less: Impairment of VAT receivables	(598 046)	-
	Total Vat payable	2 683 120	3 171 013
8.2	VAT RECEIVABLE		
	VAT Receivable	9 181 049	6 315 297
	Total VAT receivable	9 181 049	6 315 297
8.3	NET VAT RECEIVABLE/(PAYABLE)	6 497 929	2 144 284
	VAT RECEIVABLE/(PAYABLE)	6 507 929	2 144 284
	NET VAT RECEIVABLE/(PAYABLE)	6 507 929	2 144 284
	VAT is receivable/payable on the cash basis.		

EMALAHLENI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

9

PROPERTY, PLANT AND EQUIPMENT (CONTINUED)	2016 R	2016 R	
No assets pledged as security.			
Impairment of property plant and equipment for the year			
Impairment charges on Property, plant and equipment recognised in statement of financial performance			
Community Assets	-	635 644	
	-	635 644	
The impairments occurred due to assets found when performing the asset count. The value of the impairment is equal to the carrying value as at the end of the reporting date.			
Reversal of impairment charges took place during the year of reporting.	635 644	-	
Cumulative impairment charges included in major balances			
Community Assets	11 347 162	11 087 452	
	11 347 162	11 087 452	
The effect of a change in accounting estimate will have on the current period and subsequent periods:			
	2016 R	2017 R	2018 R
Effect on Property, plant and equipment	(118 445)	(161 321)	22 913
Assessment of impairment of assets was performed on other assets.			

10

INVESTMENT PROPERTY	R	R
Net Carrying amount at 1 July	6 433 761	6 394 358
Cost	6 541 482	6 491 400
Buildings	695 572	1 016 085
Land	5 845 890	7 474 415
Accumulated Depreciation	(107 701)	(97 042)
Acquisitions		1 000
Depreciation for the year	(6 507)	(10 858)
Disposals	(2 180 614)	(18 500)
Transfers to/from other classes		(1 932 438)
Net Carrying amount at 30 June	4 247 340	6 433 761
Cost	4 360 548	6 541 482
Buildings	695 572	695 572
Land	3 664 976	5 845 890
Accumulated Depreciation	(113 208)	(107 701)

There are no restrictions on the realisability of Investment Property or the remittance of revenue and proceeds of disposal.

There are no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

The fair value of investment property approximates the carrying amount as reflected in these financial statements.

EMALAHLENI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

11	CAPITALISED RESTORATION COST	2015	2015
		R	R
	Net Carrying amount at 1 July	-	951 538
	Additions	-	8 001 703
	Depreciation	-	(851 638)
	Impairments	-	(8 612 044)
	Reversal of Impairments	-	10 341
	Net Carrying amount at 30 June	-	-
	Cost	-	10 885 431
	Accumulated Depreciation	-	(1 664 815)
	Accumulated Impairments	-	(8 700 816)
	Restoration cost financed by way of a provision - Refer to note 4 for further details		
12	INTANGIBLE ASSETS	R	R
	Computer Software		
	Net Carrying amount at 1 July	206 762	268 564
	Cost	922 273	911 380
	Accumulated Amortisation	(715 521)	(642 816)
	Acquisitions	10 850	70 006
	Disposals	(53 226)	(59 173)
	Amortisation	(33 707)	(62 796)
	Net Carrying amount at 30 June	130 767	206 761
	Cost	879 995	922 273
	Accumulated Amortisation	(749 228)	(715 521)
	No intangible asset was assessed as having an indefinite useful life. There are no internally generated intangible assets at reporting date. There are no intangible assets whose life is restricted. There are no intangible assets pledged as security for liabilities. There are no contractual commitments for the acquisition of intangible assets.		
13	HERITAGE ASSETS		
	Net Carrying amount at 1 July	182 536	124 000
	Acquisitions	-	58 536
	Net Carrying amount at 30 June	182 536	182 536
	Cost	182 536	182 536
14	RECEIVABLES FROM EXCHANGE TRANSACTIONS	R	R
	Electricity	4 344 623	3 595 000
	Refuse	39 044 782	34 080 441
	Sewerage	(0)	0
	Rental	1 981 531	1 893 350
	Other Consumer Debtors	-	3 838 666
	Chris Hani Debtor	3 778 090	14 540 111
	Sundry Receivables	200 764	501 783
	Total Receivables from Exchange Transactions	49 357 780	58 449 664
	Less: Provision for Impairment	(41 688 150)	(40 060 287)
	Total Net Receivables from Exchange Transactions	7 669 630	18 389 278

Consumer debtors are payable within 30 days. This credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of trade and other receivables on initial recognition is not deemed necessary.

EMALAHLENI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

14

RECEIVABLES FROM EXCHANGE TRANSACTIONS (Continued)

	2016 R	2015 R
Ageing of Receivables from Exchange Transactions:		
<u>(Electricity): Ageing</u>		
Current (0 - 30 days)	180 125	535 256
31 - 60 Days	153 898	114 743
61 - 90 Days	130 116	90 748
+ 90 Days	3 890 483	2 845 254
Total	4 344 623	3 586 000
<u>(Refuse): Ageing</u>		
Current (0 - 30 days)	505 948	773 391
31 - 60 Days	522 726	537 827
61 - 90 Days	502 501	443 162
+ 90 Days	37 513 609	32 326 261
Total	39 044 782	34 080 441
<u>(Rental): Ageing</u>		
Current (0 - 30 days)	62 425	91 115
31 - 60 Days	65 690	63 214
61 - 90 Days	55 617	53 167
+ 90 Days	1 817 509	1 695 835
Total	1 991 631	1 893 350
<u>(Other): Ageing</u>		
Current (0 - 30 days)	-	2 669
31 - 60 Days	-	0
61 - 90 Days	-	253
+ 90 Days	-	3 835 947
Total	-	3 838 869
<u>(Tomb): Ageing</u>		
Current (0 - 30 days)	748 498	1 402 490
31 - 60 Days	732 604	705 584
61 - 90 Days	889 234	596 348
+ 90 Days	43 211 601	40 703 267
Total	45 380 936	43 407 689
Reconciliation of Provision for Bad Debts		
Balance at beginning of year	40 060 287	102 369 174
Contribution to provision/(Reversal of provision)	5 113 430	5 735 079
Written off	-3 285 688	-
Transferred to Discontinued Operations - note 48.2	-	(68 043 565)
Balance at end of year	41 888 150	40 060 287
The Provision for Impairment could be allocated between the different classes of receivables as follows:		
Electricity	1 053 603	700 411
Refuse	38 774 125	34 224 239
Other	2 059 423	5 135 637
	41 888 150	40 060 287

Concentrations of credit risk with respect to trade receivables are limited due to the municipality's large number of customers. The municipality's historical experience in collection of trade receivables falls within recorded allowances. Due to these factors, management believes that no additional risk beyond amounts provided for collection losses is inherent in the municipality's trade receivables. Assessment of arrears on Rates and Service accounts in terms of MFMA Sec:121 (3) (e) by the Accounting Officer.

EMALAHLENI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

15

RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

	2016 R	2015 R
Rates	14 078 302	12 123 867
Other Receivables	6 926	24 693
Other Receivables	<u>5 926</u>	<u>24 693</u>
Total Receivables from Non-Exchange Transactions	14 084 228	12 148 560
Less: Provision for Impairment	<u>(11 257 775)</u>	<u>(7 955 794)</u>
Total Net Receivables from Non-Exchange Transactions	<u>2 826 453</u>	<u>4 192 766</u>

Rates debtors are payable within 30 days. This credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of rates debtors are not performed in terms of GRAP 104 on initial recognition.

Ageing of Receivables from Non-Exchange Transactions:

(Rates): Ageing

Current (0 - 30 days)

31 - 60 Days

61 - 90 Days

> 90 Days

Total

	R	R
Current (0 - 30 days)	110 769	391 221
31 - 60 Days	349 062	253 834
61 - 90 Days	279 803	225 130
> 90 Days	<u>13 338 764</u>	<u>11 253 483</u>
Total	<u>14 078 397</u>	<u>12 123 667</u>

Reconciliation of Provision for Impairment

Balance at beginning of year

Contribution to provision/(Reversal of provision)

Bad Debts Written Off

Balance at end of year

Balance at beginning of year	7 955 764	12 188 602
Contribution to provision/(Reversal of provision)	3 302 011	5 154 932
Bad Debts Written Off		<u>(9 367 770)</u>
Balance at end of year	<u>11 257 775</u>	<u>7 955 764</u>

The entire provision for bad debts relates to the outstanding rates balance.

Concentrations of credit risk with respect to these receivables are limited due to the municipality's large number of customers. The municipality's historical experience in collection of trade receivables falls within recorded allowances. Due to these factors, management believes that no additional risk beyond amounts provided for collection losses is inherent in the municipality's trade receivables. Assessment of arrears on Rates and Service accounts in terms of MFMA Sec:121 (3) (e) by the Accounting Officer.

16

OPERATING LEASE ARRANGEMENTS

16.1

The Municipality as Lessor (Asset)

Balance on 1 July

Movement during the year

Balance on 30 June

	R	R
Balance on 1 July	77 416	93 222
Movement during the year	<u>5 330</u>	<u>14 194</u>
Balance on 30 June	<u>82 746</u>	<u>77 416</u>

At the Statement of Financial Position date, where the municipality acts as a Lessor under operating leases, it will receive operating lease income as follows:

Up to 1 Year

1 to 5 Years

More than 5 Years

Total Operating Lease Arrangements

Up to 1 Year	135 118	125 522
1 to 5 Years	432 855	456 898
More than 5 Years		<u>107 976</u>
Total Operating Lease Arrangements	<u>567 772</u>	<u>693 294</u>

The Municipality does not engage in any sub-lease arrangements.

The Municipality did not receive any contingent rent during the year.

Certain of the Municipality's properties are leased to third parties to generate rental income. Leases receipts escalate annually on average by 10%. Lease agreements are non-cancellable and have terms from 3 to 10 years.

EMALAHLENI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

17

CASH AND CASH EQUIVALENTS

Assets

Call Investments Deposits
 Bank Accounts
 Cash Floats

Total Cash and Cash Equivalents - Assets

Cash and cash equivalents comprise of cash held and short term deposits. The carrying amount of these assets approximates their fair value.

The Municipality has the following bank accounts:

Current Accounts

Standard Bank - Current Account - 082-885-958
 Standard Bank - Current Account - 082-830-831
 First National Bank - Current Account - 620-4898-8428

All accounts is cleared daily to Primary Bank Account; current account 082-885-958.

Standard Bank - Current Account - 082-885-958

Cash book balance at beginning of year
 Cash book balance at end of year

Bank statement balance at beginning of year
 Bank statement balance at end of year

Standard Bank - Current Account - 082-830-831

Cash book balance at beginning of year
 Cash book balance at end of year

Bank statement balance at beginning of year
 Bank statement balance at end of year

First National Bank - Current Account - 620-4898-8428

Cash book balance at beginning of year
 Cash book balance at end of year

Bank statement balance at beginning of year
 Bank statement balance at end of year

Call Investment Deposits

Call investment deposits consist of the following accounts:

Call Investments Deposits

Invested Account Number/s: 451/485258
 First National Bank Account Number/s: 74366334164
 Standard Bank Account Number/s: 08 879 9897 - 012
 Standard Bank Account Number/s: 08 879 9897 - 001

2016
R

2015
R

26 023 440
 2 261 871
 20 252
28 285 562

28 583 011
 3 182 247
 21 142
31 776 400

R

R

78 399
 25 063
 2 148 408
2 261 871

470 729
 1 863 238
 858 280
3 192 247

470 729
 78 399

5 106 340
 470 729

470 729
 78 399

5 106 340
 470 729

1 863 238
 25 063

2 713 783
 1 863 238

1 863 238
 25 063

2 713 783
 1 863 238

858 280
 2 148 408

1 530 871
 858 280

858 280
 2 148 408

1 530 871
 858 280

26 023 440
 11 140 209
 14 357 428
 43 333
 202 057

28 583 011
 14 403 649
 13 492 487
 464 818
 202 057

18

PROPERTY RATES

Actual

Ratesable Land and Buildings

Residential, Commercial Property, State
 Agricultural

Less: Rebates

Total Assessment Rates

Valuations

Ratesable Land and Buildings:

Residential
 Agricultural
 Government
 Business & Commercial
 Municipal
 Exempt Properties

Total Assessment Rates

3 744 280
 3 719 278

3 030 310
 743 880

3 449 090
 270 188

-
3 744 280

-
3 719 278

239 505 804
 491 459 300
 52 397 600
 128 211 401
 93 834 400
 27 879 652
1 623 087 957

233 374 200
 491 572 100
 56 750 100
 101 118 200
 93 719 300
 45 764 200
1 023 311 100

Valuations on land and buildings are performed every four years. The last valuation came into effect on 1 July 2014.
 Rebates can be defined as any income that the Municipality is entitled by law to levy, but which has subsequently been forgone by way of rebate or remission.

EMALAHLENI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

19	Government Grants and Subsidies	2016 R	2015 R
	Unconditional Grants	116 537 000	92 038 000
	Equitable share	116 537 000	92 038 000
	Conditional Grants	59 267 259	51 241 952
	Grants and subsidies	59 267 259	51 241 952
	Total Government Grants and Subsidies	175 804 259	143 279 952
	Government Grants and Subsidies - Capital	30 614 700	30 399 227
	Government Grants and Subsidies - Operating	145 189 559	112 880 725
		175 804 259	143 279 952
	Revenue recognised per vote as required by Section 123 (c) of the MFMA		
	Budget and Treasury	113 314 000	99 678 883
	Community Services	892 789	1 130 846
	Electricity	21 000 000	11 000 000
	IPED	31 470	98 133
	Refuse	200 000	1 601 881
	Roads Transport	34 226 000	34 373 209
		175 804 259	143 279 952
	The municipality does not expect any significant changes to the level of grants.		
19.1	Equitable share		
	Opening balance	-	-
	Grants received	116 537 000	92 038 000
	Conditions met - Operating	(116 537 000)	(92 038 000)
	Conditions met - Capital	-	-
	Conditions still to be met	-	-
	The Equitable Share is the unconditional share of the revenue raised nationally and is being allocated in terms of Section 214 of the Constitution (Act 108 of 1996) to the municipality by the National Treasury.		
19.2	Local Government Financial Management Grant (FMG)		
	Opening balance	-	-
	Grants received	1 875 000	1 800 000
	Conditions met - Operating	(1 875 000)	(1 800 000)
	Conditions met - Capital	-	-
	Conditions still to be met	-	-
	The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMG Grant also pays for the cost of the Financial Management Internship Programme (e.g. salary costs of the Financial Management Interns).		
19.3	Municipal Systems Improvement Grant (MSIG)		
	Opening balance	-	-
	Grants received	930 000	934 000
	Conditions met - Operating	(930 000)	(934 000)
	Conditions met - Capital	-	-
	Conditions still to be met	-	-
	The MSIG was used for building in-house capacity to perform municipal functions and stabilise institutional and governance systems.		
19.4	Municipal Infrastructure Grant (MIG)		
	Opening balance	-	720 893
	Grants received	32 226 000	30 670 000
	Conditions met - Operating	(1 611 300)	(1 548 500)
	Conditions met - Capital	(30 614 700)	(30 142 393)
	Conditions still to be met	-	-
	The grant was used to upgrade infrastructure in previously disadvantaged areas.		

EMALAHLENI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

19	GOVERNMENT GRANTS AND SUBSIDIES (CONTINUED)	2016 R	2015 R
19.5	Integrated National Electrification Grant (INEP)		
	Opening balance	-	-
	Grants received	21 000 000	11 000 000
	Conditions met - Operating	(21 000 000)	(11 000 000)
	Conditions met - Capital	-	-
	Grant expenditure to be recovered	-	-
	The National Electrification Grant was used for electrical connections in previously disadvantaged areas.		
19.6	Other Grants		
	Opening balance	348 699	1 045 769
	Grants received	4 045 000	5 153 770
	Grants transferred	-	(33 771)
	Conditions met - Operating	(3 238 259)	(5 560 225)
	Conditions met - Capital	-	(259 834)
	Conditions still to be met	1 157 442	348 699
	Various grants were received from other spheres of government (e.g. Library fund and Extended Public Works Program)		
19.7	Total Grants		
	Opening balance	348 701	1 768 653
	Grants received	178 613 000	141 895 770
	Grants transferred	-	(33 771)
	Conditions met - Operating	(145 189 559)	(112 880 725)
	Conditions met - Capital	(30 814 700)	(30 399 227)
	Conditions still to be met/(Grant expenditure to be recovered)	1 157 442	348 700
	Disclosed as follows:		
	Unspent Conditional Government Grants and Receipts	1 157 441	348 701
	Unpaid Conditional Government Grants and Receipts	-	-
		1 157 441	348 701
20	SERVICE CHARGES		
	Electricity	8 748 026	8 822 735
	Water	27	-
	Refuse removal	4 124 109	2 810 797
	Sewerage and Sanitation Charges	(47 065)	-
	Less: Rebates	12 823 099	11 633 632
		(1 224 883)	(453 888)
	Total Service Charges	11 598 216	11 179 643
	Rebates can be defined as any income that the Municipality is entitled by law to levy, but which has subsequently been forgone by way of rebate or remission.		
21	INTEREST EARNED		
	External Investments		
	Interest Investments	3 784 665	3 312 533
	Interest Bank Balance	81 580	37 416
	Interest Other	-	-
	Total External Investments	3 846 124	3 349 949
	Outstanding Debtors	-	-
	Property Rates	1 436 406	1 280 637
	Refuse	2 650 830	2 244 807
	Electricity	378 413	238 644
	Rent	187 309	155 713
	Total Outstanding Debtors	4 632 959	3 820 602
	Less: Transferred to Discontinued Operations - Note 50.2	-	-
	Total Outstanding Debtors Continued	4 632 959	3 820 602
	Total Interest Earned	8 479 083	7 279 650

EMALAHLENI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

22

OTHER INCOME

	2016 R	2015 R
Administration charges	-	1 961 201
Building plans	19 833	19 890
Branding of Livestock	4 688	41 580
Cemetery Fees	29 145	31 622
Chris Hani DM (Water & Sanitation)	-	22 393 720
Connection Fees	198 813	53 232
Insurance Income	232 494	251 175
LGSETA	73 079	67 080
Pound Fees	21 613	12 341
Registrations	8 442	123
Housing Admin Fees	33 550	-
Sundry Income	2 420 771	98 610
Total Other Income	3 048 427	24 930 585
Less: Transferred to Discontinued Operations - Note 50.2	(2 265 894)	(22 393 720)
Total Other Income Continued	782 533	2 536 865

Sundry income represents sundry income such as clearing of sites, private work and fees for items not included under service charges.

23

EMPLOYEE RELATED COSTS

	2016 R	2015 R
Salaries and Wages	37 699 353	37 407 093
Annual bonus	1 814 810	2 983 035
Contributions for UIF, pensions and medical aids	6 791 347	6 214 787
Housing Subsidy	62 300	91 718
Leave Reserve Fund	702 667	1 443 656
Long service awards	281 148	290 393
Overtime	839 790	1 369 106
Post Employment Health	601 840	606 788
Senior Skills Allowance	3 301	-
Performance bonus	1 031 547	-
Skills development levy	350 456	336 691
Travel, motor car, telephone, assistance and other allowances	2 776 202	1 509 260
Provision for Ex-Gratia payment- CFO	14 472	15 382
Workmen's Compensation	374 837	366 455
Total Employee Related Costs	53 213 170	52 763 573
Less: Transferred to Discontinued Operations - Note 50.2	-	(8 976 009)
Total Employee Related Costs Continued	53 213 170	42 787 564

Municipal Manager and all other Senior Managers are appointed on fixed term contracts.

REMUNERATION OF KEY MANAGEMENT PERSONNEL

Remuneration of the Municipal Manager (MM Dr VS Vatale)

Annual Remuneration	1 494 100	1 340 719
Performance Bonuses	166 340	185 900
Leave encashment	-	42 692
Telephone, assistance and other allowances	26 138	26 138
Contributions to UIF, SDL, Bargaining council	16 641	15 895
Total	1 693 217	1 611 236

Remuneration of the Director Technical Services (M Mkyana - only 4 months 2014)

Annual Remuneration	-	-
Ex-gratia	-	1 134 916
Performance Bonuses	-	-
Leave encashment	-	-
Telephone, assistance and other allowances	-	-
Contributions to UIF, SDL, Bargaining council	-	-
Total	-	1 134 916

Remuneration of the Manager Corporate Services (Manager Corporate Services - P Sohe)

Annual Remuneration	1 098 599	989 364
Performance Bonuses	100 880	127 111
Leave encashment	-	31 959
Acting Allowance	-	15 889
Telephone, assistance and other allowances	22 506	22 506
Contributions to UIF, SDL, Bargaining council	12 336	12 071
Total	1 243 301	1 208 709

Remuneration of the Chief Financial Officer (GP de Jager)

Annual Remuneration	1 146 757	1 050 262
Performance Bonuses	145 951	173 648
Leave encashment	-	33 360
Telephone, assistance and other allowances	18 600	18 800
Contributions to UIF, SDL, Bargaining council	13 617	13 118
Total	1 324 825	1 289 008

Remuneration of the Director Community Services (NP Mnyengeza for 9 months 2014)

Annual Remuneration	-	-
Ex-gratia	-	1 134 916
Leave encashment	-	-
Telephone, assistance and other allowances	-	-
Contributions to UIF, SDL, Bargaining council	-	-
Total	-	1 134 916

EMALAHLENI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

	2016	2015
Remuneration of the Manager IPED Services (N Mnyawo)		
Annual Remuneration	1 080 500	1 004 448
Performance Bonuses	49 930	83 555
Telephone, assistance and other allowances	16 600	18 600
Contributions to UIF, SCL, Bargaining council	11 883	11 235
Total	1 179 913	1 097 837
Remuneration of the Director Strategic Services (AM Samuels 8 months 2014)		
Annual Remuneration	-	1 134 816
Ex-gratia	-	-
Leave encashment	-	-
Telephone, assistance and other allowances	-	-
Contributions to UIF, SCL, Bargaining council	-	-
Total	-	1 134 816
Remuneration of the Director Infrastructure and Human Settlements (D Ngilo)		
Annual Remuneration	1 080 500	998 726
Performance Bonuses	136 822	18 159
Acting Allowance	15 783	-
Telephone, assistance and other allowances	16 600	18 600
Contributions to UIF, SCL, Bargaining council	13 866	11 069
Total	1 286 670	1 046 554
Remuneration of the Director Community Services (N Nyoni)		
Annual Remuneration	1 080 500	998 726
Performance Bonuses	136 822	13 619
Telephone, assistance and other allowances	16 600	20 000
Contributions to UIF, SCL, Bargaining council	13 149	10 634
Total	1 270 169	1 052 949
REMINERATION OF COUNCILLORS	R	R
Mayor	778 880	739 368
Speaker	827 278	868 264
Executive Committee Members	2 892 548	2 356 602
Councillors	8 816 650	8 419 529
Total Councillors' Remuneration	10 884 836	10 133 758

In-kind Benefits

The Mayor and Speaker are full-time. The Mayor and Speaker are provided with offices and secretarial support at the cost of the Council. The Mayor has use of a Council owned vehicle and a driver for official duties.

COUNCILLORS

1 Nyakwana, N.	Mayor	ANC	Mayor Ward 8	778 880	739 368
2 Lail, N.	Speaker	ANC	Speaker Ward 13	827 278	868 264
3 Lwazi, S.	Chief Whip	ANC	Executive Committee Ward 6	880 378	559 740
4 Khatso, D.S.	Executive Committee	ANC	Executive Committee Ward 7	880 378	572 812
5 Khatso, T.	Executive Committee	ANC	Executive Committee Ward 11	880 378	559 740
6 Khatso, S.P.	Executive Committee	ANC	Executive Committee Ward 10	880 378	471 500
7 Khatso, K.	Executive Committee part time	ANC	Executive Committee Ward 2	335 036	287 833
8 Moko, L.	Chairperson of Section 79 Committee	ANC	Ward Councillor 2	240 340	257 486
9 Khatso, N.F.	Councillor	ANC	Ward Councillor 1	240 340	354 070
10 Khatso, N.	Councillor	ANC	Ward Councillor 3	240 340	236 416
11 Khatso, H.C.	Councillor	ANC	Ward Councillor 4	240 340	236 416
12 Khatso, P.	Councillor	ANC	Ward Councillor 5	240 340	236 416
13 Khatso, J.	Councillor	ANC	Ward Councillor 6	240 340	236 416
14 Khatso, N.	Councillor	ANC	Ward Councillor 7	240 340	236 416
15 Khatso, N.	Councillor	ANC	Ward Councillor 8	240 340	236 416
16 Khatso, F.	Councillor	ANC	Ward Councillor 9	240 340	236 416
17 Khatso, T.R.	Councillor	ANC	Ward Councillor 10 Deceased April 2016	207 791	236 416
18 Khatso, L.	Councillor	ANC	Ward Councillor 11	240 340	236 416
19 Khatso, J.P.	Councillor	ANC	Ward Councillor 12	240 340	236 416
20 Khatso, Z.	Councillor	ANC	Ward Councillor 13	240 340	236 416
21 Khatso, N.	Councillor	ANC	Ward Councillor 14	240 340	236 416
22 Khatso, M.	Councillor	ANC	Ward Councillor 15	240 340	236 416
23 Khatso, S.	Councillor	ANC	Ward Councillor 16	240 340	236 416
24 Khatso, B.	Councillor	ANC	Proportional Ward 17	240 340	236 416
25 Khatso, P.	Councillor	ANC	Proportional Ward 4	240 340	236 416
26 Khatso, V.	Councillor	ANC	Proportional Ward 14	240 340	236 416
27 Khatso, N.	Councillor	ANC	Proportional Ward 17	240 340	236 416
28 Khatso, N.	Councillor	ANC	Proportional Ward 12	240 340	236 416
29 Khatso, T.R.	Councillor	ANC	Proportional Ward 12	-	181 600
30 Khatso, V.	Councillor	ANC	Proportional Deceased mid March 2015	-	-
31 Khatso, K.	Councillor	ANC	Proportional Ward 10	240 340	236 416
32 Khatso, P.	Councillor	ANC	Proportional Ward 14	240 340	236 416
33 Khatso, Z.	Councillor	ANC	Proportional Ward 5	240 340	236 416
34 Khatso, T.	Councillor	ANC	Proportional Ward 16	240 340	236 416
35 Khatso, T.D.	Councillor	ANC	Proportional Ward 3	240 340	177 312
36 Khatso, S.N.	Councillor	ANC	Proportional Ward 10	240 340	19 701
Telephone cost refund				30 829	-
Gazette amounts				10 884 836	10 133 758

Certification by the Accounting Officer

I certify that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act and the Minister of Provincial and Local Government's determination in accordance with the Act.



Signed: Accounting Officer

EMALAHLENI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

26	DEBT IMPAIRMENT	2016	2015
	Trade Receivables from exchange transactions - Note 14	4 485 465	8 412 111
	Trade Receivables from non-exchange transactions - Note 15	3 302 011	5 154 932
	Total Contribution to Debt Impairment	<u>7 787 477</u>	<u>13 567 043</u>
26	DEPRECIATION AND AMORTISATION		
	Property Plant and Equipment	22 762 401	21 992 504
	Capitalised Restoration Cost	-	951 638
	Investment Property	5 507	10 658
	Intangible Assets	33 797	62 706
	Total Depreciation and Amortisation	<u>22 801 616</u>	<u>23 007 505</u>
27	FINANCE CHARGES		
	Landfill site	-	144 994
	Long service awards	101 918	104 391
	Long-term Liabilities	120 034	57 785
	Post Employment Health	400 101	479 788
	Total finance charges	<u>622 053</u>	<u>786 929</u>
28	REPAIR AND MAINTENANCE		
	Roads, Pavements & Bridges	1 436 506	1 245 298
	Storm water	122 209	324 142
	Electricity Transmission & Reticulation	1 401 761	337 847
	Street Lighting	719 881	14 000
	Water Reticulation	-	2 589 282
	Sewerage Reticulation	-	61 650
	Parks & gardens	14 000	234 894
	Sportsfields & stadia	101 027	2 879
	Cemeteries	450	477 538
	General vehicles	1 072 011	1 002 548
	Machinery & equipment	436 992	2 642 510
	Furniture and other office equipment	69 440	66 476
	Other Land and Buildings	1 645 615	1 540 331
	Total repair and maintenance	<u>7 019 662</u>	<u>10 647 383</u>
	Less: Transferred to Discontinued Operations- Note 50.2		<u>(5 281 393)</u>
		<u>7 019 662</u>	<u>5 285 970</u>
29	BULK PURCHASES		
	Electricity	15 628 893	14 809 208
	Total Bulk Purchases	<u>15 628 893</u>	<u>14 809 208</u>
30	OTHER OPERATING GRANT EXPENDITURE		
	Operating grant expenditure per vote		
	Budget and Treasury	4 299 905	3 715 617
	Corporate Services	-	33 077
	Electricity	18 421 053	9 767 754
	IPED	442 729	2 365 960
	Refuse	200 750	1 089 416
	Roads Transport	5 532 845	5 636 601
	Water and Sanitation	-	-
	Total Operating grant expenditure	<u>28 906 465</u>	<u>23 216 465</u>

EMALAHLENI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

31

	2016	2015
	R	R
GENERAL EXPENSES		
Administration charges	-	21 562
Advertisements	570 490	393 513
Auditors Remuneration	3 058 284	3 073 459
Bank Charges	256 550	180 773
Books, Magazines & Publication	18 202	15 113
Chris Hani DM (Capital Items)	-	1 678 589
Cleaning	467 870	131 655
Cleaning Materials	-	17 318
Conferences and Seminars	1 540 580	1 177 122
Congress Fee	18 630	3 600
Consulting and Professional fees	1 880 744	1 545 007
Consumables	71 851	33 764
Data Cleansing	115 657	9 529
Disaster Expenditure	509 069	879 924
Electricity Service Charges	405 639	349 294
Entertainment	312 171	-
Field Band Project	1 200 370	482 736
Fleet Management	19 958	59 271
FMS Expenditure and Licences	751 521	750 135
Fuel and oil	1 296 791	2 780 505
Insurance	1 297 677	1 108 081
Leasehold	-	82 400
Lease rentals on operating lease	381 828	398 628
Library Assets	-	174 921
License Fees	488 508	484 282
Maintenance	896	137 621
Material Stores	59 001	1 337 584
Meyer Cup	200 286	466 125
Medical Exams	1 140	220
Network Infrastructure Improvement	301 037	501 800
New Connections	-	205
Printer Bids	19 850	2 650
Print Hire	51 200	89 757
PMS & IDP Compliance	477 804	387 234
Pesticides	162 610	261 001
Postage	7 999	10 348
Printing and stationery	1 458 251	1 670 184
Projects	3 440 047	2 584 221
Protective Clothing	698 103	302 059
Public participation	1 029 793	647 883
Refuse Bags	338 300	229 622
Relocation Cost	57 600	33 000
Revenue Enhancement	-	-
Revenue Enhancement Strategy	135 116	327 994
Sanitation Green Drop	-	29 250
Security	2 953 988	1 765 575
Special Community Projects; example Youth day	1 568 593	1 644 573
Staff Tools Of Trade	-	8 772
Study Assistance	200 000	225 576
Subscription and Membership fees	977 618	779 950
Subsistence and Travel	2 486 531	2 285 456
Telephones and fax	1 881 570	1 563 768
Traditional Leaders Expenditure	74 960	70 490
Training	471 455	695 040
Transport and freight	817 933	598 434
Travel - total	4 571 796	5 217 194
Valuation Roll	57 750	8 080
Ward Committee cost	725 848	493 342
Water Blue Drop	-	88 044
Water Purification	-	818 809
Water samples	-	344 169
Wellness Day	791 755	419 751
General Expenses	41 553 053	41 726 110
Less: Transferred to Discontinued Operations - Note 50.2		(7 156 318)
General Expenses Continued	41 553 053	34 569 792

EMALAHLENI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016
CORRECTION OF ERROR IN TERMS OF GRAP 3

32.01 Narratives of the corrections of errors

- (i) Amounts payable for trade creditors applicable for the 2014/15 financial year were received after the reporting period, with the result that the Payables from Exchange Transactions and Input VAT were understated and Accumulated Surplus overstated. This error is now rectified retrospectively with the following entries: (Dt) Accumulated Surplus R1 410 290,43, (Cr) Payables from Exchange Transactions R1 476 722,01 and (Dt) VAT R66 431,58
- (ii) Credit amounts of R7 572,01, R229,72 and R437,20 respectively were included under Receivables from Exchange transactions during 2014/2015. This error is now corrected.
- (iii) Payments received in advance from debtors in the Billing System were incorrectly disclosed as Receivables- Exchange and Receivables Non Exchange Transactions. It should have been disclosed as Payables from Exchange Transactions with the result that all the components were understated and therefore now corrected.
- (iv) A COAF was issued during the previous year audit to rectify assets. The previous errors are now corrected with the following entries: (Dt) Accumulated Surplus R377 251,51 (Dt) Other Assets -cost R184 000 (Cr) Accumulated Depreciation-Other Assets R502,39 (Cr) Accumulated Depreciation- Community Assets R590 749,12
- (v) First-time recognition of Community Youth Centrum -Erf 893 Dordrecht with the following entries: (Dt) PPE- Community Assets R1 396 881,84 (Cr) Accumulated Depreciation R67 921,71 (Cr) Accumulated Surplus-prior years -R1 314 948,74 (Dt) Accumulated Surplus-current year (depreciation) R13 988,82
- (vi) First-time recognition of Land and Buildings previously not in asset register. This error is now corrected with the following entries: (Dt) PPE-Land and Buildings R4 916 900, (Cr) Accumulated Depreciation R898 350 (Cr) Accumulated Surplus -prior years R4 151 600 (Dt) Accumulated Surplus -current year-(depreciation) R 128 650,00
- (vii) First-time recognition of Other Assets, found with the annual asset count previously not included in the asset register. This error is now retrospectively corrected with the following entries: PPE -Other Assets R247 870,98 (Cr) Accumulated Depreciation R117 867,28 (Cr) Accumulated Surplus -prior years R 160 663,08 (Cr) Accumulated Surplus -current year (Depreciation) R20 659,36
- (viii) Assets were last year incorrectly capitalised as work in progress. This error is now rectified with the following entries: (Dt) Accumulated Surplus -current year R421 232,17, (Cr) Accumulated Depreciation- Community Assets R391 208,65 (Cr) Accumulated Depreciation- Land and Buildings R10 623,52
- (ix) The municipality has unbundled numerous infrastructure items in the Asset register with the result that due to changes in the useful lives of components of some of the unbundled assets, the accumulated depreciation for infrastructure changed dramatically due to the retrospectively application of the correction of errors. The entries to correct the accumulated depreciation to reflect the correct book value of the assets as at the previous year, are as follows: (Dt) Accumulated Surplus-prior years R55 105 258 Accumulated Surplus current year- (depreciation) R360 331 and (Cr) Accumulated Depreciation Infrastructure R65 465 589
- (x) An error in the calculation of depreciation in a single item in the Land and Buildings assets register was found. The error is now corrected with the following entries: (Dt) Accumulated Surplus -prior year R16 129,03 (Dt) Accumulated Surplus-current year (depreciation) R10 129,03 and (Cr) Accumulated Depreciation Land and Buildings with R32 258,06

	2016 R	2014 R
32.02 ACCUMULATED SURPLUS		
Balance previously reported		
Payables from Exchange Transactions - see note 33.01 (i)	488 385 488	469 543 326
Property Plant and Equipment see note 33.01(iv)	(1 410 290)	
Property Plant and Equipment see note 33.01(v)	(377 252)	(377 252)
Property Plant and Equipment see note 33.01(vi)	1 300 890	1 314 949
Property Plant and Equipment see note 33.01(vii)	4 023 550	4 151 800
Property Plant and Equipment see note 33.01(viii)	130 004	150 693
Property Plant and Equipment see note 33.01(ix)	(401 832)	-
Property Plant and Equipment see note 33.01(x)	(55 465 589)	(55 105 258)
Property Plant and Equipment see note 33.01(x)	(18 129)	-
Restated balance 30/06/2016	<u>406 169 906</u>	<u>419 678 028</u>
	2015 R	2014 R
32.03 PROPERTY, PLANT AND EQUIPMENT		
Balance previously reported		
Accumulated Depreciation Community Assets - see note 33.01(iv)	439 281 466	422 240 399
Accumulated Depreciation Other Assets - see note 33.01(v)	(502)	(502)
Other Assets -Cost-see note 33.01(v)	(590 749)	(590 749)
Community Assets-cost- see note 33.01(v)	184 000	184 000
Community Assets-Accumulated Depreciation- see note 33.01(v)	1 398 882	1 398 882
Land and Buildings -cost- see note 33.01(vi)	(97 822)	(83 933)
Land and Buildings -cost- see note 33.01(vi)	1 078 400	1 078 400
Land and Buildings-Accumulated Depreciation- see note 33.01(vi)	3 841 500	3 841 500
Other Assets -Cost-see note 33.01(vii)	(966 350)	(798 300)
Other Assets accumulated Depreciation- see note 33.01(vii)	247 871	247 871
Land and Buildings-Accumulated Depreciation- see note 33.01(viii)	(117 867)	(97 208)
Community Assets-Accumulated Depreciation- see note 33.01(viii)	(10 624)	-
Infrastructure Assets-Accumulated Depreciation-see note 33.01(ix)	(391 209)	-
Land and Buildings-Accumulated Depreciation-see note 33.01(x)	(55 465 589)	(55 105 258)
	(18 129)	-
	<u>388 478 178</u>	<u>372 376 101</u>

EMALAHLENI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

32.04 PAYABLES FROM EXCHANGE TRANSACTIONS

Balance previously reported	15 803 079	15 077 414
Accumulated Surplus -see note 33.01 (f)	1 476 722	-
Receivables from non Exchange Transactions-see note 33.01(ii)	8 239	-
Receivables from non Exchange Transactions-see note 33.01(iii)	272 461	-
Receivables from Exchange Transactions-see note 33.01(iii)	416 575	-
Restated balance 30/06/2015	<u>17 977 076</u>	<u>15 077 414</u>

32.05 VAT

Balance previously reported	2 077 862	2 522 476
Payables from Exchange transactions-see note 33.01(i)	86 432	-
Restated balance 30/06/2015	<u>2 144 294</u>	<u>2 522 476</u>

32.06 RECEIVABLES FROM NON EXCHANGE TRANSACTIONS

Balance previously reported	3 920 135	5 860 616
Payables from Exchange transactions-see note 33.01(iii)	272 461	-
Restated balance 30/06/2015	<u>4 192 596</u>	<u>5 860 616</u>

32.07 RECEIVABLES FROM EXCHANGE TRANSACTIONS

Payables from Exchange transactions-see note 33.01(iii)	17 964 462	10 402 833
Payables from Exchange transactions-see note 33.01(iii)	8 239	-
Payables from Exchange transactions-see note 33.01(iii)	416 575	-
Restated balance 30/06/2015	<u>18 389 276</u>	<u>10 402 833</u>

32.08 STATEMENT OF FINANCIAL PERFORMANCE

	2015 R	2014 R
EXPENSE PREVIOUSLY REPORTED	11 156 838	-
Payables from Exchange Transactions - see note 33.01 (i)	1 410 290	-
Property Plant and Equipment-see notes 33.01 (v)-(x)	940 960	-
Restated balance 30/06/2015	<u>13 508 119</u>	<u>-</u>

EMALAHLENI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

	2016	2015
	R	R
33 RECONCILIATION BETWEEN NET SURPLUS/(DEFICIT) FOR THE YEAR AND CASH GENERATED/(ABSORBED) BY OPERATIONS		
Surplus/(Deficit) for the year	3 975 608	(13 508 119)
Adjustments for:		
Depreciation/Amortisation	22 801 615	23 007 507
Gain on disposal of property, plant and equipment	(359 930)	
Loss on disposal of property, plant and equipment	9 191 107	1 142 817
Contributed Assets	(259 000)	(346 075)
Impairment Loss	-	9 247 688
Impairment (Reversals)	(535 644)	(10 341)
Contribution from/to provisions - Non-Current	410 760	1 733 719
Contribution from/to provisions - Non-Current - Expenditure incurred	(180 003)	(115 773)
Contribution from/to provisions - Non-Current - Actuarial gains	(184 586)	(928 454)
Contribution to provisions - current	(3 958 293)	4 825 345
Contribution to provisions - current - Expenditure incurred	3 923 962	(3 043 200)
Best Impairment	7 787 477	13 587 042
Operating lease income / (expenses) accrued	(5 330)	(14 194)
Operating Surplus/(Deficit) before changes in working capital	42 549 701	35 559 755
Changes in working capital	4 685 482	(17 408 897)
Increase/(Decrease) in Payables from exchange transactions	3 832 083	2 869 685
Increase/(Decrease) in Unspent Conditional Government Grants and Receipts	808 741	(1 452 636)
Increase/(Decrease) in Unpaid Conditional Government Grants and Receipts	-	34 684
Increase/(Decrease) in Taxes	(4 453 645)	378 190
Increase/(Decrease) in Inventory	-	618 565
Increase/(Decrease) in Receivables from exchange and non-exchange transactions	4 488 513	(19 885 485)
Cash generated/(absorbed) by operations	47 235 193	18 153 069
34 CASH AND CASH EQUIVALENTS		
Cash and cash equivalents included in the cash flow statement comprise the following:		
Cash Investments Deposits - Note 17	28 023 440	28 583 011
Cash Flows - Note 17	20 252	21 142
Bank - Note 17	2 251 871	3 192 247
Total cash and cash equivalents	28 295 562	31 776 400
35 RECONCILIATION OF AVAILABLE CASH AND INVESTMENT RESOURCES		
Cash and Cash Equivalents - Note 34	28 295 562	31 776 400
Loans	28 295 562	31 776 400
Unspent Committed Conditional Grants - Note 7	1 157 442	348 701
Resources available for working capital requirements	27 138 120	31 427 699
Allocated to:		
Current Employee Benefits	7 129 458	7 097 272
Non-Current Provisions	10 525 917	11 514 635
Resources available for working capital requirements	9 482 745	12 815 792
36 UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION		
Long-term Liabilities - Note 2	648 340	810 383
Used to finance property, plant and equipment - at cost	(548 349)	(810 383)
Cash set aside for the repayment of long-term liabilities	-	-
Cash invested for repayment of long-term liabilities	-	-
Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act	-	-

EMALAHLENI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

37

UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED

2016
R

2016
R

37.1 Unauthorised expenditure

Reconciliation of unauthorised expenditure:

Opening balance	-	-
Unauthorised expenditure for the year - capital	12 624 240	9 856 654
Unauthorised expenditure for the year - operating		(9 856 654)
Written off by council		
Unauthorised expenditure awaiting authorisation	12 624 240	-

Unauthorised expenditure on operating votes is mainly due to depreciation and debt impairment charges

Incident	Disciplinary steps/criminal proceedings
Over expenditure on approved operational and capital budget:	None; report has been presented to Council

	2016 R (Actual)	2016 R (Budget)	2016 R (Variance)	2016 R (Unauthorised)
Unauthorised expenditure current year - operating				
Budget and Treasury Office	40 037 381	31 154 184	8 883 196	8 883 196
Community and Social Services	16 399 371	17 221 118	(821 747)	-
Corporate Services	17 997 709	18 131 416	(133 707)	-
Electricity	38 977 268	42 001 984	(5 024 698)	-
Executive and Council	33 347 851	34 146 147	(798 495)	-
Housing	1 251 842	1 257 070	(5 228)	-
Planting and Development	5 814 726	5 949 924	(135 198)	-
Public Safety	1 530 396	1 532 493	(2 057)	-
Refuse	-	-	-	-
Road Transport	37 397 353	41 903 312	(4 505 959)	-
Sport and Recreation	1 103 626	1 158 771	(55 245)	-
Water	-	-	-	-
Waste Water Management	-	-	-	-
Waste Management	10 573 558	6 632 513	3 741 045	3 741 045
	202 430 797	201 288 892	(2 899 138)	12 624 240
Unauthorised expenditure current year - capital				
	2016 R (Actual)	2016 R (Budget)	2016 R (Variance)	2016 R (Unauthorised)
Budget and Treasury	-	838 000	(838 000)	-
Community and Social Services	-	14 265 613	(14 265 613)	-
Corporate Services	-	8 218 000	(8 218 000)	-
Executive and Council	-	5 976 655	(5 976 655)	-
IPED	-	1 210 000	(1 210 000)	-
Technical Services	-	13 439 574	(13 439 574)	-
	-	43 947 842	(43 947 842)	-

EMALAHLENI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

37

UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED (Continued)

2016
R

2015
R

37.2

Fruitless and wasteful expenditure

Reconciliation of fruitless and wasteful expenditure:

Opening balance

68 040

17 146 721

Fruitless and wasteful expenditure the year

18 448

88 040

Written off by council

(17 183)

(17 146 721)

Recovered Fruitless and wasteful expenditure the year

(7)

-

Fruitless and wasteful expenditure awaiting further action

69 296

68 040

Incident

Disciplinary steps/criminal proceedings

Interest was paid to Eskom and Telkom

Investigated

1 283

Interest and penalties were paid on Eskom and Telkom accounts

Written off

-

Interest was paid to Eskom and Telkom prior year

None

-

W.Mkhayana-salary paid incorrectly

To be recovered

68 033

68 033

69 296

68 040

37.3

Irregular expenditure

Reconciliation of irregular expenditure:

Opening balance

73 498 943

132 804 408

Irregular expenditure for the year

7 217 045

20 259 703

Irregular expenditure for the prior year

-

-

Written off

(80 715 988)

(79 565 168)

Irregular expenditure awaiting further action

-

73 498 943

Incident

Disciplinary steps/criminal proceedings

SCM procedures not followed current year

None

17 785 466

Libbe Basadi Investment

None

1 804 746

Mtsheni/Umkhaya Construction JV

None

888 481

SCM procedures not followed prior year

Investigated

53 239 242

SCM procedures not followed-Botzan Prop Developers

Written off

4 362 655

SCM procedures not followed-Libbe Basadi Investments

Written off

2 854 391

7 217 045

73 498 945

37.4

Material Losses

Electricity distribution losses

Units purchased (Kwh)

12 685 655

14 531 976

Units sold (Kwh)

7 434 124

9 928 338

Units lost during distribution (Kwh)

5 551 531

5 605 640

Percentage lost during distribution

42.74%

38.57%

38

ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT

38.1

Contributions to emancipated local government - (MFMA 125 (1)(b)) - SALGA CONTRIBUTIONS

Opening balance

-

-

Council subscriptions

500 000

506 000

Amount paid - current year

(500 000)

(506 000)

Amount paid - previous years

-

-

Balance unpaid (included in creditors)

-

-

38.2

Audit fees - (MFMA 125 (1)(c))

Opening balance

-

-

Current year audit fee

3 958 284

2 969 417

External Audit - Auditor-General

3 958 284

2 969 417

Amount paid - current year

(3 958 284)

(2 969 417)

Balance unpaid (included in creditors)

-

-

38.3

VAT - (MFMA 125 (1)(d))

Opening balance

(2 093 628)

1 070 930

Amounts received - current year

7 271 186

5 223 304

Amounts received - previous years

1 262 752

1 702 885

Amounts claimed - current year

(10 391 357)

(10 090 747)

Closing balance - (Receivable) / Payable

(3 851 044)

(2 093 628)

VAT is payable/receivable on the cash basis. VAT is only paid over to SARS once cash is received from debtors and only claimed from SARS once payment is made to creditors.

38.4

PAYE, SQL and UIF - (MFMA 125 (1)(e))

Opening balance

549 831

-

Current year payroll deductions and Council Contributions

9 379 047

9 608 670

Amount paid - current year

(10 328 878)

(8 857 039)

Balance unpaid (included in creditors)

-

849 631

38.5

Pension and Medical Aid Deductions - (MFMA 125 (1)(e))

Opening balance

-

-

Current year payroll deductions and Council Contributions

12 478 870

11 296 347

Amount paid - current year

(12 478 870)

(11 296 347)

Balance unpaid (included in creditors)

-

-

EMALAHLENI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

38 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT (CONTINUED)

38.6 Councillor's arrear consumer accounts - MFMA 124(1)(b)

The following Councillors had arrear accounts for more than 90 days as at 30 June:

	2016 R Outstanding more than 90 days	2015 R Outstanding more than 90 days
Komane, B.	51 681	25 214
Godla, M.	182	
Total Councillor Arrear Consumer Accounts	51 753	25 214

Councillor Komane's account has been handed over for collection. Councillor Godla's property has been sold to Mr LM Ngcongca however the property has not been transferred and thus Councillor Godla still reflects as the debtor on the system.

38.7 Other non-compliance - MFMA 125(2)(e)

Terms of Section 65(2)(e) of the Municipal Finance Management Act, 2003 (Act No 56 of 2003) (MFMA).
Some Cheques were not paid within 90 days.

38.8 Non-Compliance with Chapter 11 of the Municipal Finance Management Act

In terms of section 38 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Municipal Manager and noted by Council.

Deviations (Sole Suppliers) approved by Municipal Manager

Total Suppliers	Amount
3	1 718 507

39 CAPITAL COMMITMENTS

Commitments in respect of capital expenditure:

Approved and contracted for:

Infrastructure
Community
Other

4 690 800	17 555 426
4 690 800	17 555 426
-	-
-	-

Approved but not yet contracted for

-

Total

4 690 800	17 555 426
-----------	------------

This expenditure will be financed from:

External Loans
Capital Replacement Reserve
Government Grants

-	-
-	-
4 690 800	17 555 426
4 690 800	17 555 426

Total

EMALAHLENI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

40

FINANCIAL RISK MANAGEMENT

2016

2015

The activities of the municipality expose it to a variety of financial risks, including market risk (comprising fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The municipality's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance.

(a) Foreign Exchange Currency Risk

The municipality did not engage in any foreign currency transaction.

(b) Price risk

The municipality is not exposed to price risk.

(c) Interest Rate Risk

As the municipality has significant interest-bearing liabilities, the entity's income and operating cash flows are substantially dependent on changes in market interest rates.

The municipality analyses its potential exposure to interest rate changes on a continuous basis. Different scenarios are simulated which include refinancing, renewal of current positions, alternative financing and hedging. Based on these scenarios, the entity calculates the impact that a change in interest rates will have on the surplus/deficit for the year. These scenarios are only simulated for liabilities which constitute the majority of interest bearing liabilities.

The municipality did not hedge against any interest rate risks during the current year.

The potential impact on the entity's surplus/deficit for the year due to changes in interest rates were as follow:

	2016 R	2015 R
1% (2012 - 0.5%) increase in interest rates	181 994	356 705
0.5% (2012 - 0.5%) Decrease in interest rates	(80 952)	(178 353)

(d) Credit Risk

Credit risk is the risk that a counter party to a financial or non-financial asset will fail to discharge an obligation and cause the municipality to incur a financial loss.

Credit risk consist mainly of cash deposits, cash equivalents, trade and other receivables and unpaid conditional grants and subsidies.

Receivables are disclosed net after provisions are made for impairment and bad debts. Trade debtors comprise of a large number of ratepayers, dispersed across different sectors and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Credit risk pertaining to trade and other debtors is considered to be moderate due the diversified nature of debtors and immaterial nature of individual balances. In the case of consumer debtors the municipality effectively has the right to terminate services to customers but in practice this is difficult to apply. In the case of debtors whose accounts become in arrears, Council endeavours to collect such accounts by "levying of penalty charges", "demand for payment", "resumption of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

The credit quality of receivables are assessed on individual debtors basis. The accounts are then impaired on a individual basis based on the risk profile/credit quality associated with that individual account.

All rates and services are payable within 30 days from invoice date. Refer to note 14 and 15 for all balances outstanding longer than 30 days. These balances represent all debtors at year end which defaulted on their credit terms. Also refer to note 14 for balances included in receivables that were re-negotiated for the period under review.

EMALAHLENI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

40

FINANCIAL RISK MANAGEMENT (CONTINUED)

Balances past due not impaired:

	2016 %	2016 R	2015 %	2015 R
<u>Non-Exchange Receivables</u>				
Rates and other receivables	100.00%	2 826 462	100.00%	4 192 596
<u>Exchange Receivables</u>				
Electricity	41.93%	3 132 118	16.21%	2 796 531
Refuse	-69.05%	(5 157 721)	-26.84%	(4 935 192)
Other	127.12%	9 485 235	111.83%	20 527 837
	100.00%	7 469 630	100.00%	18 389 276

No receivables are pledged as security for financial liabilities.

Due to the short term nature of receivables the carrying value disclosed in note 14 and 15 of the financial statements is an approximation of its fair value. Interest on overdue balances are included at prime lending rate plus 1% where applicable.

The provision for bad debts could be allocated between the different classes of debtors as follows:

	2016 %	2016 R	2015 %	2015 R
<u>Non-Exchange Receivables</u>				
Rates and other receivables	100.00%	11 257 775	100.00%	7 666 764
<u>Exchange Receivables</u>				
Electricity	2.54%	1 063 603	1.89%	798 488
Refuse	92.57%	38 774 125	97.39%	39 015 633
Other	4.89%	2 050 423	0.81%	246 186
	100.00%	41 888 150	100%	40 060 287

An amount of R 3 295 568 debt was written off - (see also note 15)

The entity only deposits cash with major banks with high quality credit standing. An amount of R100 000 is pledge as security on call deposits with Standard Bank. Although the credit risk pertaining to cash and cash equivalents are considered to be low, the maximum exposure are disclosed below.

The entity has no non-current investment transactions.

The banks utilized by the municipality for current and non-current investments are all listed on the JSE. The credit quality of these institutions are evaluated based on their required SENS releases as well as other media reports. Based on all public communications, the financial sustainability is evaluated to be of high quality and the credit risk pertaining to these institutions are considered to be low.

The risk pertaining to unpaid conditional grants and subsidies are considered to be very low. Amounts are receivable from national and provincial government and there are no expectations of counter party default.

All receivables are individually evaluated annually at Statement of Financial Position date for impairment.

Financial assets exposed to credit risk at year end are as follows:

	2016 R	2015 R
Receivables from exchange transactions	7 469 630	18 389 276
Receivables from non-exchange transactions	2 826 462	4 192 596
Cash and Cash Equivalents	38 295 562	31 776 400
Unpaid conditional grants and subsidies	-	-
	<u>38 591 644</u>	<u>54 358 272</u>

FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity Risk:

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying business, the treasury maintains flexibility in funding by maintaining availability under credit lines.

The entity's risk to liquidity is a result of the funds available to cover future commitments. The entity manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the entity's financial liabilities into relevant maturity groupings based on the remaining period at the financial year end to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	Over 10 Years
2016				
Long Term liabilities - Finance Lease Liability	352 890	320 076	-	-
Capital repayments	270 801	205 495		
Interest	73 089	24 591		
Long Term liabilities - Hire purchase Lease Liability	76 491	-	-	-
Capital repayments	73 053	0	-	-
Interest	3 429	(0)	-	-
Trade and Other Payables	20 351 204	-	-	-
Unspent conditional government grants and receipts	1 157 442	-	-	-
	21 938 026	320 076	-	-

	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	Over 10 Years
2015				
Long Term liabilities - Finance Lease Liability	232 895	-	-	-
Capital repayments	203 916	-	-	-
Interest	28 979	-	-	-
Long Term liabilities - Hire purchase Lease Liability	133 825	256 499	-	-
Capital repayments	107 393	234 735	-	-
Interest	26 442	21 764	-	-
Trade and Other Payables	11 391 055	-	-	-
Unspent conditional government grants and receipts	348 701	-	-	-
	12 106 486	256 499	-	-

EMALAHLENI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

41	FINANCIAL INSTRUMENTS	2016 R	2015 R
	In accordance with GRAP 104 the financial instruments of the municipality are classified as follows:		
	The fair value of financial instruments approximates the amortised costs as reflected below.		
41.1	Financial Assets		
	Classification		
	Investments		
	Fixed Deposits	-	-
	Receivables		
	Receivables from exchange transactions	7 499 830	18 389 278
	Receivables from non-exchange transactions	2 826 452	4 192 596
	Other Receivables		
	Government Subsidies and Grants	-	-
	Short-term Investment Deposits		
	Cash Deposits	26 023 440	28 563 011
	Bank Balances and Cash		
	Bank Balances	2 251 871	3 192 247
	Cash Floats and Advances	20 252	21 142
		38 691 644	54 358 272
	SUMMARY OF FINANCIAL ASSETS		
	Financial instruments at amortised cost	38 691 644	54 358 272
	At amortised cost	38 691 644	54 358 272
41.2	Financial Liability		
	Classification		
	Long-term Liabilities		
	Capitalised Lease Liability	295 485	473 860
	Hire Purchase	0	73 062
	Payables from exchange transactions		
	Trade Payables	16 063 803	10 684 264
	Third party payables (Payroll)	16 336	1 035 923
	Payments received in advance-pre paid electricity	210 468	89 579
	Sundry Deposits	21 846	11 900
	Sundry Creditors	94 608	1 259 180
	Other Payables		
	Government Subsidies and Grants	1 157 442	346 701
	Current Portion of Long-term Liabilities		
	Capitalised Lease Liability	279 801	190 510
	Hire Purchase	73 063	72 950
		22 367 481	18 447 124
	SUMMARY OF FINANCIAL LIABILITY		
	Financial instruments at amortised cost	22 367 481	18 447 124
42	EVENTS AFTER THE REPORTING DATE		
	None		
43	IN-KIND DONATIONS AND ASSISTANCE		
	None		
44	PRIVATE PUBLIC PARTNERSHIPS		
	Council has not entered into any private public partnerships during the financial year.		

EMALAHLENI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

45	CONTINGENT LIABILITY	2016	2015
	The municipality is being sued by Mgumane for damages whereby the claimant allegedly suffered constitutional damages.	1 000 000	15 000
	The Municipality is being sued by D S O'Reilly for damages suffered due to negligence by the municipality in failing to maintain and monitor the structure of the dam wall and dam outlet of Hogesell Dam.	50 000	100 000
	Ex Grats Gratuities are payable regarding contracts for Sec. 56 Managers on termination of contract.	1 281 432	1 155 311
	Claims against Council	<u>2 311 432</u>	<u>1 270 311</u>

In all the above cases a possible obligation to pay for the events remain at 30 June 2016, but uncertainty prevails of the actual time of the outflow of funds.

46	CONTINGENT ASSETS		
	A fraud case occurred after AFS was submitted to the amount of R332 186.94.		
	Claims by Council	<u>322 187</u>	<u>322 187</u>
		<u>322 187</u>	<u>322 187</u>

In all the above cases, possible recovery of funds remain at 30 June 2016, but uncertainty prevails of the actual time of the inflow of funds.

47

RELATED PARTIES

Key Management and Councilors receive and pay for services on the same terms and conditions as other ratepayers / residents.

This includes service charges and other charges are in accordance with approved tariffs that were advertised to the public. No bad debt expenses have been recognised in respect of amounts owed by related parties.

47.1 Related Party Loans

None

47.2 Compensation of key management personnel

The compensation of key management personnel is set out in note 23 to the Annual Financial Statements.

47.3 Other related party transactions

The following entity exist during the year where Councilors or staff have an interest

<u>Councilor/Staff Member</u>	<u>Entity</u>	<u>Amount of Transactions</u>	<u>Payments made</u>	<u>Outstanding Payments</u>
P Grayling	UNIVERSAL GARAGE	R 227 578.48	R 227 578.48	R 0.00
M Dyubela	E N Dyubela Builders	R 255 499.00	R 255 499.00	R 0.00
N Ziduli	Khazimla Holdings (Pty) LTD	R 135 555.71	R 135 555.71	R 0.00

DISCONTINUED OPERATIONS

The Municipality acted as Water Service Provider (WSP) for the provision of water and sanitation services on behalf of the Water Service Authority, Chris Hani District Municipality. The Water Service Authority resolved to resume full accountability for the Revenue functions as from 1 July 2014.

The effect of Discontinued Operations on the Statement of Financial Position is as follows:

49.1 Liabilities associated with Discontinued Operations

	2016	2015
Employee Benefits		
Post Retirement Benefits - Refer to Note 3.1	-	1 147 585
Long Service Awards - Refer to Note 3.2	-	237 027
Total Non-current Employee Benefit Liabilities	-	1 384 612
Post Retirement Benefits		
Balance 1 July	1 147 585	1 003 746
Contribution for the year	-	123 413
Interest Cost	-	92 246
Expenditure for the year	-	-
Actuarial Loss/(Gain) Recovered	(1 147 585)	(71 820)
Total post retirement benefits 30 June	-	1 147 585
Less: Transfer of Current Portion - Note 3.1	-	1 147 585
Balance 30 June	-	-
Long Service Awards		
Balance 1 July	237 027	264 040
Contribution for the year	-	49 736
Interest Cost	-	19 295
Expenditure for the year	-	-
Actuarial Loss/(Gain) Recovered	(237 027)	(24 079)
Total long service 30 June	-	308 994
Less: Transfer of Current Portion - Note 3.2	-	(71 967)
Balance 30 June	-	237 027
TOTAL NON-CURRENT EMPLOYEE BENEFITS	1 384 612	1 267 736
Balance 1 July	-	173 151
Contribution for the year	-	111 541
Interest Cost	-	-
Expenditure for the year	-	(85 899)
Actuarial Loss/(Gain) Recovered	(1 384 612)	-
Total employee benefits 30 June	-	1 456 579
Less: Transfer of Current Portion - Note 3.1	(1 384 612)	(71 967)
Balance 30 June	1 384 612	1 384 612
CURRENT EMPLOYEE BENEFITS		
Current Portion of Post Retirement Benefits - Note 5	-	71 967
Current Portion of Long-Service Provisions - Note 5	(71 967)	672 181
Provision for Staff Leave Note 5	(672 181)	137 104
Staff Bonuses applied Note 5	(137 104)	-
Total Current Employee Benefits	(881 252)	881 252
The movement in current employee benefits is reconciled as follows: Note 5		
Provision for Staff Leave		
Balance at beginning of year	-	687 896
Contribution to current portion	-	84 293
Expenditure incurred	-	-
Recovered	(672 181)	-
Balance at end of year	(672 181)	872 181
Staff Bonuses applied		
Balance at beginning of year	-	107 372
Contribution to current portion	-	-
Expenditure incurred	-	-
Recovered	(137 104)	-
Balance at end of year	(137 104)	137 104
Total Liabilities associated with Discontinued Operations	(2 265 864)	2 265 864
Assets associated with Discontinued Operations		
Trade Receivables from exchange transactions		
Water	-	32 816 226
Sewerage	-	36 083 924
Total: Trade receivables from exchange transactions (before provision) - Note 15	-	68 900 152
Less: Provision for impairments - Note 15	-	(68 900 152)
Water	-	(32 816 226)
Sewerage	-	(36 083 924)
VAT	-	-
Total: Trade receivables from exchange transactions (after provision) - Note 15	-	-
Total: Assets associated with Discontinued Operations	-	-

EMALAHLENI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

48.2	The effect of Discontinued Operations on the Statement of Financial Performance is as follows:	2016	2015
	Revenue from Exchange Transactions:		
	Service Charges	-	-
	Less: Rebates	-	-
	Total Service Charges - Note 21	-	-
	Interest Earned - Outstanding Debtors	-	-
	Actuarial Gains	-	-
	Other Income	-	22 393 720
	Total Revenue	-	22 393 720
	EXPENDITURE		
	Employee related costs	-	9 976 009
	Debt Impairment	-	-
	Depreciation and Amortisation	-	-
	Repairs and Maintenance	-	5 281 393
	Other Operating Grant Expenditure	-	-
	General Expenses	-	7 156 316
	Total Expenditure	-	22 393 720
	NET SURPLUS / (DEFICIT) FOR THE YEAR	-	-

APPENDIX A - Unaudited
EMALAHLENI MUNICIPALITY
SCHEDULE OF LONG-TERM LIABILITIES AS AT 30 JUNE 2016

LONG-TERM LIABILITIES	Rate	Loan Number	Redeemable	Balance at 30 JUNE 2015	.	Balance at 1 JULY 2015 Restated	Received during the period	Adjustments	Interest portion payable at period end	Redeemed or written off during the period	Balance at 30 JUNE 2016
HIRE PURCHASE											
Standard Bank	9.00%	43454525/0007	2017/06/01	146 012	-	146 012	-	-	-	72 950	73 062
Total Hire Purchase				146 012	-	146 012	-	-	-	72 950	73 062
LEASE LIABILITY											
Aloe Office & Business Solutions	17.39%		2018/05/26	377 086	-	377 086				109 205	267 881
Aloe Office & Business Solutions	17.72%		2018/06/11	287 284	-	287 284				81 305	205 979
FINTECH	9.75%		2018/04/29	-	-	-	134 054	-		32 629	101 425
Total Lease Liabilities				664 370	-	664 370	134 054	-	-	223 138	575 286
TOTAL LONG-TERM LIABILITIES				810 382	-	810 382	134 054	-	-	296 088	648 348

APPENDIX B - Unaudited
EMALAHLENI MUNICIPALITY
SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2016
MUNICIPAL VOTES CLASSIFICATION

2015 Actual Income R	2015 Actual Expenditure R	2015 Surplus/ (Deficit) R		2016 Actual Income R	2016 Actual Expenditure R	2016 Surplus/ (Deficit) R
100 933 507	(27 010 993)	73 922 514	Budget and Treasury	125 516 195	(40 037 381)	85 478 814
2 054 992	(13 307 652)	(11 252 661)	Community Services	1 863 327	(17 502 897)	(15 639 570)
68 161	(19 134 228)	(19 066 067)	Corporate Services	140 556	(17 997 709)	(17 857 153)
6 545 075	(18 974 028)	(12 428 953)	Council	6 399 000	(22 454 415)	(16 055 415)
20 114 962	(38 020 342)	(17 905 380)	Electricity	30 324 445	(38 507 682)	(8 183 237)
107 300	(7 600 901)	(7 493 601)	Executive	51 410	(10 893 236)	(10 841 826)
-	(882 840)	(882 840)	Housing Services	33 550	(1 251 842)	(1 218 292)
157 622	(7 473 558)	(7 315 937)	IPED	56 295	(5 814 726)	(5 758 431)
6 413 638	(17 285 845)	(10 872 206)	Refuse	7 374 857	(10 573 558)	(3 198 701)
34 839 155	(35 052 143)	(212 988)	Roads Transport	34 693 788	(37 397 353)	(2 703 565)
22 393 720	(22 393 720)	-	Water and Sanitation	(47 016)	-	(47 016)
193 628 131	(207 136 250)	(13 508 119)	Sub Total	206 406 407	(202 430 798)	3 975 608
-	-	-		-	-	-
193 628 131	(207 136 250)	(13 508 119)	Total	206 406 407	(202 430 798)	3 975 608

APPENDIX C - Unaudited
EMALAHLENI MUNICIPALITY
SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2016
GENERAL FINANCE STATISTIC CLASSIFICATIONS

2015 Actual Income R	2015 Actual Expenditure R	2015 Surplus/ (Deficit) R		2016 Actual Income R	2016 Actual Expenditure R	2016 Surplus/ (Deficit) R
6 652 375	(26 574 929)	(19 922 554)	Executive and Council	6 450 410	(33 347 651)	(26 897 241)
100 933 507	(27 010 993)	73 922 514	Budget and Treasury Office	125 516 195	(40 037 381)	85 478 814
68 161	(19 134 228)	(19 066 067)	Corporate Services	140 556	(17 997 709)	(17 857 153)
157 622	(7 473 558)	(7 315 937)	Planning and Development	56 295	(5 814 726)	(5 758 431)
-	-	-	Health	-	-	-
2 054 992	(12 368 923)	(10 313 931)	Community and Social Services	1 862 539	(16 399 371)	(14 536 832)
-	(882 840)	(882 840)	Housing	33 550	(1 251 842)	(1 218 292)
4 925	(562 016)	(557 091)	Public Safety	67 355	(1 530 396)	(1 463 041)
-	(938 730)	(938 730)	Sport and Recreation	788	(1 103 526)	(1 102 738)
6 413 638	(17 285 845)	(10 872 206)	Waste Management	7 374 857	(10 573 558)	(3 198 701)
3 411 749	(3 411 749)	-	Waste Water Management	(47 043)	-	(47 043)
34 839 155	(35 052 143)	(212 988)	Road Transport	34 693 788	(37 397 353)	(2 703 565)
18 981 971	(18 981 971)	-	Water	27	-	27
20 110 037	(37 458 326)	(17 348 289)	Electricity	30 257 090	(36 977 286)	(6 720 196)
-	-	-	Other	-	-	-
193 628 131	(207 136 250)	(13 508 119)	Total	206 406 407	(202 430 798)	3 975 608

APPENDIX D - Unaudited
EMALAHLENI MUNICIPALITY
DISCLOSURES OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 66 OF 2003

UNPAID AND UNPAID GOVERNMENT GRANTS AND RECEIPTS	Balance 1 JULY 2019	Corrections Prior year	Restated Balance JULY 2014	Grants Received	Total Grants Available	Write Offs / Transfers	Operating expenditure during the year Transferred to revenue	Capital expenditure during the year Transferred to revenue	Balance 30 JUNE 2016	Unspent 30 JUNE 2016 Current Liability	Unpaid 30 JUNE 2016 Current Asset
	R	R	R	R	R	R	R	R	R	R	R
National Government Grants											
Equitable share	43 176	-	43 176	173 688 000	173 611 176	-	142 996 476	30 614 700	-	-	-
Local Government Financial Management Grant (FMG)	-	-	-	116 537 000	116 537 000	-	116 537 000	-	-	-	-
Municipal Infrastructure Grant (MIG)	-	-	-	1 875 000	1 875 000	-	1 875 000	-	-	-	-
Municipal Systems Improvement Grant (MSIG)	-	-	-	32 226 000	32 226 000	-	1 611 300	30 614 700	-	-	-
Department of Water Affairs and Forestry (DWAF)	43 176	-	43 176	930 000	930 000	-	930 000	-	-	-	-
Integrated National Electrification Grant (INEP)	-	-	-	21 000 000	21 000 000	-	43 176	-	-	-	-
Extended Public Works Program (EPWP)	-	-	-	1 000 000	1 000 000	-	21 000 000	-	-	-	-
Provincial Government Grants											
LED	305 525	-	305 525	1 733 000	2 038 525	-	881 083	-	1 157 442	1 157 442	-
Library	31 470	-	31 470	-	31 470	-	31 470	-	-	-	-
Rural Development	274 055	-	274 055	803 000	1 077 055	-	849 613	-	227 442	227 442	-
District Municipality Grants											
Greenest Municipality Grant	-	-	-	1 312 000	1 312 000	-	1 312 000	-	-	-	-
Paving and beautification	-	-	-	200 000	200 000	-	200 000	-	-	-	-
Indigent Application Project	-	-	-	1 000 000	1 000 000	-	1 000 000	-	-	-	-
	-	-	-	112 000	112 000	-	112 000	-	-	-	-
Total	348 701	-	348 701	176 613 000	176 961 701	-	145 189 559	30 614 700	1 157 441	1 157 442	-